PROFILE OF A PORK BARREL, P. 33

reason

Free Minds and Free Markets

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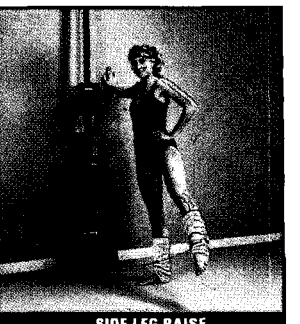

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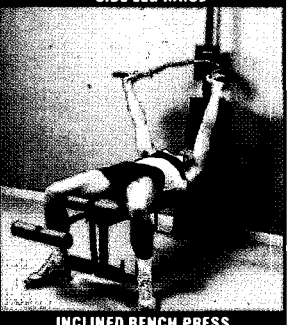

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JANUARY 1985 / VOL. 16, NO. 8

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Free Minds and Free Markets

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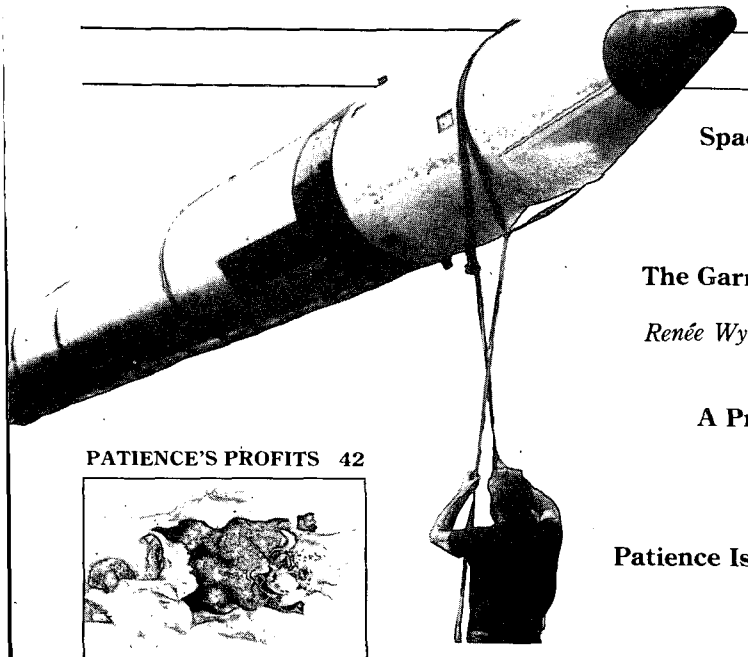

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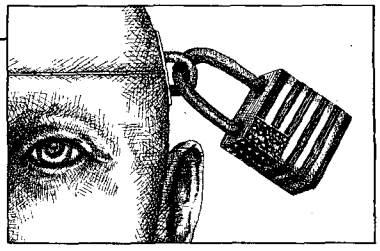

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NOTEs

This issue should be in your hands shortly before the holidays. In case you haven't yet had the opportunity to take advantage of REASON's special holiday gift subscription rates, we'd like to direct you to the ad on the inside back cover of the issue. Last-minute holiday shopping can be hectic enough, and there are probably special people on your gift list who would enjoy REASON—a gift that keeps on coming all year long.

We've made it easy by providing a toll-free number just for holiday gift ordering: 800/341-1522. The number will be good through January, so if the holidays have rushed by and there are people you forgot, you can still give REASON.

Spotlight columnist Patrick Cox does double duty this month with the cover story on space entrepreneurs and the way NASA stands in their way. It's been a few years since we've covered private space developments in a feature article ("The Second Space Race," Nov. 1981). With the launch last summer of a privately developed rocket off the coast of California, it seemed like a good time to do an overview of exciting new moves by space entrepreneurs. But nosing around by our investigative reporter and REASON's own research revealed that things are not as rosy as we thought. The details begin on page 23.

The 1984 Mencken Awards, given out each year by the Free Press Association, were announced October 19 in Long Beach, California. And a REASON article was among the finalists. Michael McMenamin and William Gorenc's "Subverting the First Amendment" (Jan. 1983), about the attempts of the Securities and Exchange Commission to license and regulate financial newsletters, came close to winning the award for Best News Story or Investigative Report. The winner in this category was in fact a frequent REASON contributor, David Henderson. His award-winning article: "The Myth of MITI," published in *Fortune.*

We're still seeking leads on where to live. That is, if you care about personal freedom, where are the better and worse places in the country to live? We're thinking that this would make an interesting REASON investigation, but we need lots of data from out there around the country. If you know of instances in which your state or locality makes it particularly difficult—or easy—to do what you want to do (set up a business, operate a private school, work out of your home, incorporate, provide a service such as gardening or child care . . .), you could let us know with a newspaper clipping on the subject area, a short note, or whatever might give us clues about such laws or policies. Send the info to: WHERE TO LIVE, Reason, Box 40105, Santa Barbara, CA 93140-0105.

—M.Z.

People calling in to REASON's offices will likely as not be talking first to Sandi MacDonald, who joined us recently as the new administrative assistant at the Reason Foundation. Sandi first started doing office work as a high-school co-op student and worked most recently as an administrative assistant at Oldsmobile in Lansing, Michigan. At REASON, she will be holding the offices together by handling all secretarial and inventory-control functions, bookkeeping, and supervising clerical staff.

Sandi takes over the reins from long-time employee Cathy Chmel, the super-organized, high-efficiency front-desk person who has provided a welcome thread of continuity as the Reason Foundation has grown from 4 to 13 employees. Cathy has long wanted to live in the San Francisco area and finally decided to pull up stakes and move on. We'll miss her, but we wish her well.

How much of your estate will the government get? Death and taxes go together far more than they need to. You can reduce your family's exposure to estate taxes by leaving a portion to a non-profit, tax-exempt educational organization. One such organiation is the Reason Foundation, publisher of this magazine. By making a bequest to the Foundation in your will, you can have the satisfaction of knowing that some of what you have earned during your life will go on working in support of the ideas and values that matter to you, by making possible the efforts of the Reason Foundation to advance individual liberty. It's a very simple matter to have your attorney draft a codicil to your will, making a specific gift to the Reason Foundation. Your attorney can also suggest other forms of charitable giving, some of which offer present tax benefits.

—R.W.P.

PLANTING FREEDOM'S SEEDS

The Libertarian International, founded in Ann Arbor, Michigan in 1980 by Vincent Miller, has of late made significant headway in the building and nurturing of a worldwide network of libertarian activists. Two highly successful world conferences were organized — in Zurich, Switzerland (1982), and in London, England (1984), and following the historic First World Conference in Zurich, libertarian associates in Europe launched into action, organizing the First European Libertarian convention in Brussels, Belgium (1983). Another European regional conference will be held in July/August 1985 in the mountains near Oslo, Norway.

We have a number of outreach programs underway: two more regional conferences — a Pan American convention (to be held in the Caribbean) and an Asian convention to be held in the Philippines or Hong Kong — both in 1985 or 1986. Moreover, we are engaged in a rapidly expanding program of translating and publishing libertarian works in a number of languages — including French, Spanish, Dutch, Norwegian, and Polish.

We hope that you will agree that this is all very exciting and that you will find an association with us to be both exciting and stimulating — so why not join today and help us with this great endeavor? As a member, you will receive our newsletter/magazine which will keep you posted on libertarian activities around the world, provide a stimulating forum for international debate from *all* libertarian viewpoints and keep you informed on developments such as the emergence of new libertarian countries.

But don't take our word for it — read what other libertarians have to say about Libertarian International's activities:

"Without an international brotherhood of those who love liberty, freedom will not be able to grow anywhere on earth. In this regard, the Libertarian International provides great hope for mankind."

Dr. Peter Breggin
Author: The Psychology of Freedom

"Libertarian International is doing a great job and the Free World Chronicle has a quality missing in most libertarian publications; it's interesting!"

S.B. — California

"The Libertarian International has shown that politics and institutionalized power belong to the age of dinosaurs. We are now well on the way to creating an effective worldwide ideological movement for liberty."

Hubert J. Jongen
Pres. Dutch Libertarian Center

"The Libertarian International has given me more hope for the future of freedom than anything has — ever."

L.C. — Massachusetts

"It's been a very long time since I've participated in a Libertarian Conference (London '84) in which there was such a constant aura of good feeling. Issues were discussed sensibly; there was no acrimony; there was no bitterness of exchange and many things were learned. We got information and wisdom both. I have not attended perhaps in 10 years a conference that produced all those favorable effects."

Prof. John Hospers
Author: Libertarianism

LIBERTARIAN INTERNATIONAL STATEMENT OF PURPOSE

Libertarian International is an association of individuals and organizations dedicated to building a free and peaceful world, respect for individual rights and liberties, and an open and competitive economic system based on voluntary exchange and free trade. Members and affiliated organizations pursue this goal through independent action, using their freely chosen strategies. The association exists to promote the exchange of information and ideas, to study diverse strategies and to foster fellowship.

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Robert W. Poole, Jr.

A Party for Baby-Boomers

The New Deal is dead at last. The drubbing dished out to poor Walter Mondale signals the end of an era. No longer will a national political party attempt to win the presidency by attempting to buy off every interest group in sight with promises of government assistance. The idea that government can—and should—solve all our problems has been decisively rejected.

If you want to understand the depth of this rejection, and get a glimpse of where this country is headed, pay careful attention to what the surveys reveal about the views of the baby-boom generation. Those born between 1946 and 1964—75 million people—constitute *one-third* of our population. And more than any other age group, they voted for Ronald Reagan in 1984. Why?

Republican pollster Lance Tarrance sees the baby-boomers as welcoming, rather than fearing, economic growth and change. Many younger voters rejected Mondale in 1984 because they saw the Democrats supporting those opposed to change: "Unions, high wages, protectionism—all tied to the part of the country that won't change. These people see the Democrats as locking the country in."

Former LBJ assistant Horace Busby points out how different younger Americans' priorities are. They "neither want nor expect [much] from government . . . [they] want things to be more private than they are [now]," and they support "more decentralization of government and business." Karlyn Keene of *Public Opinion* magazine underscores younger voters' "cynicism about big government, big labor—and big business."

By contrast, voters perceived Ronald Reagan as offering a vision of a dynamic, high-tech future of growth and opportunity, in which government takes a back seat to entrepreneurs motivated by lower tax rates to create new firms and ultimately whole new industries.

But pollsters from both parties also agree on what the baby-boomers were *not* supporting in voting for Reagan: his views on social and moral issues. Reagan-Bush deputy director Lee Atwater describes the baby-boomers as libertarians, because they are economically conservative and socially liberal. Admits GOP pollster Robert Teeter, "An increasing number of better-educated voters are tolerant of a wider range of lifestyles and may not react well to our position on some of these [social and moral] issues."

Presidential pollster Richard Wirthlin told *Time* that "younger voters are very individualistic in their economic views but quite liberal in their views on social issues, such as the ERA and abortion." And this description fits young Democrats, according to pollster Pat Caddell: "The younger [Democratic] voters tend to be skeptical of the New Deal, Big Government programs, more conservative on economic issues but more liberal on cultural matters."

Thus, both parties have a serious problem. To win in 1988 means capturing the imagination of the baby-boomers. If the Republicans continue their drift toward the New Right's social agenda, they will alienate this emerging near-majority. But unless the Democrats can figure out a graceful way to jettison their New Deal baggage, they cannot hope to win the baby-boomers' hearts and minds, either.

For the Democrats, the best course might be to return to their roots in Jefferson and Jackson (that's Andy, not Jesse) and become, in fact, the party of individuals and entrepreneurship. As a basic text, they could do worse than to adopt Mancur Olson's *The Rise and Decline of Nations*. Applying the principles of "public choice analysis" (essentially, the economic analysis of bureaucracy and interest-group politics), Olson shows how the accumulation of special-interest privileges leads a society to stagnation. The challenge of public policy in the '80s, then, is to figure out ways of flushing these accumulations of privilege and rigidity out of our society's arteries.

How to do this? Among the remedies Olson suggests for freeing up the system are free trade (exposing inefficient firms to tough competition) and free immigration (exposing overpaid, overprotected workforces to tough competition). The former is a traditional Democratic position, only lately abandoned; the latter is favored by the party's civil-libertarian wing. Other policies to encourage entrepreneurship and reduce cartelization could include abolishing the capital-gains tax and continuing deregulation of transportation, communications, and financial institutions.

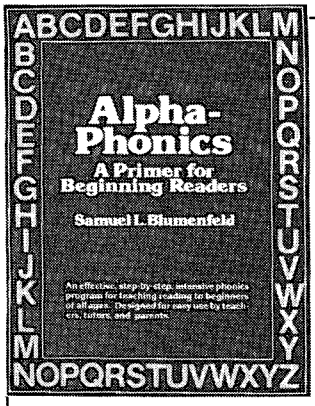
In defense and foreign policy, a Democratic alternative that would appeal to the generation brought up with Missile Command and other computer games could include building a space-defense system *instead of* (not in addition to) new offensive missiles, being equally tough-minded with the Soviets *and* defense contractors, and staying out of foreign quarrels *unless* the security of this country is actually at risk.

What hope is there for such a reformulation of Democratic policy? At this point, it's hard to say. The leading neoliberal journal, the *Washington Monthly*, heaped praise on Mancur Olson's book. And many of the thinkers in Gary Hart's entourage embraced portions of the agenda sketched out above. Yet the rising star of last summer's Democratic national convention was Mario Cuomo, with his unabashed defense of New Deal egalitarianism and income redistribution.

On the Republican side, while Atwater has called for a coalition of conservatives and libertarians, the most free-market-oriented of the 1988 hopefuls have thus far wrapped themselves in the robes of the New Right preachers. What these people don't seem to appreciate is that a generation that came of age with birth-control pills, working mothers, and recreational drugs is simply not going to return to some Norman Rockwell version of America. Nor will they stand for *government* attempting to impose it on them.

The majority party of the future will be the party that embraces growth, opportunity, choice, and tolerance—in short, both personal and economic freedom. For 1988, that party could be either, neither . . . or both.

Robert W. Poole, Jr.



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> When I started on September 10th, Eric was almost totally retarded as a reader. Evidently he was one of those youngsters who refuse to attempt sight reading. I followed your book's instructions exactly. Would you believe that we went from Lesson 2 through Lesson 27 in two weeks? And by Thanksgiving we had drilled right through Lesson 117?
>
> Even you wouldn't believe the results! It was as if we were witnessing a miracle!
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> Eric is now reading **Robinson Crusoe**, and is just loving it! He had been having headaches all through second grade and was losing weight. Since he started learning by your method, he hasn't been sick one day, and has gained weight rapidly to where he has a perfect physique.
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> Needless to say, we are grateful. Thank you so much for your excellent effort in helping countless parents, such as ourselves, in warding off the educational crippling of countless children.

The man who evokes that enthusiasm is Samuel L. Blumenfeld. Sam is an old friend of us here at the Club, and we've watched his interest in this problem grow over some 25 years. First as a New York editor and a member of the Advisory Council of the Reading Reform Foundation. Then as the author of several basic books in the private-school movement: *How to Start Your Own Private School — And Why You Need One; The New Illiterates; Is Public Education Necessary?;* and *How to Tutor*. Finally, as a teacher himself. Sam has the credentials, in abundance, so we'll let him describe the essence of this breakthrough program:

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Letters

State, Power, and Genes

Robert Nisbet's identification of the *state* with *power* is right on the money ("Cloaking the State's Dagger," Oct.). But Nisbet understates the state's role in the unending competitions for mates and scarce resources. For those who wield the state's power—and to a lesser extent for those who apply for it—the state is an armored chariot in the race to propagate genes.

Bart Kosko
San Diego, CA

Tippecanoe—and Johnson, Too?

I enjoyed Tom Hazlett's assessment of conventions and candidates ("Convention Comedy," Nov.). One day recently, I amused myself by charting the qualifications of our 40 presidents at the time they were elected. I included service as congressman, senator, governor, general, major ambassador, and vice-president.

By a prior-experience test, the all-time best ticket would have been William Henry Harrison and Andrew Johnson. Harrison was a general, member of House and Senate, ambassador to Colombia, and (appointed) governor of the Northwest Territories. Johnson served as governor, congressman, senator, and vice-president, and held the rank of brigadier general as military governor of Tennessee.

There was a tie for "least qualified by virtue of prior experience," but of those tied, one could have assembled a respectable ticket out of Washington and Lincoln.

John McClaughry
Concord, VT

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The Cancer Connection

Your publication of an excerpt from Edith Efron's book, *The Apocalyptics: Cancer and the Big Lie* (May), and then the laudatory review of the book by William Tucker (Sept.), prompt me to offer another opinion. Take it from someone who is neither an ideologue nor an environmental zealot, but who has had many years of experience with the issues raised by Efron—her book presents a wholly deceptive view of important but highly complex public health issues. She is not only unfair to competent scientists grappling with the difficult problem of estimating cancer risks to large, heterogeneous populations, but she also exhibits ignorance of generally accepted scientific principles.

To cite one of many examples, Efron heaps scathing ridicule on the principle that one cannot establish a threshold below which exposure may be considered safe. This is not, as she states, a matter of ideology, but is based on a solid body of knowledge demonstrating that carcinogenic chemicals, like radiation, attack the DNA in the nucleus of the cell. Accepting this indisputable fact, it follows that a single "hit" at a vulnerable site could theoretically cause a neoplastic change. But even if a threshold did exist, for which there is no evidence whatever, it would be low and variable; and for many people it would already be exceeded by the many carcinogens to which we are unavoidably exposed.

For these reasons, the concept of a threshold is not useful in making regulatory decisions. The public does not generally understand that tests for carcinogenesis have to be carried out by exposing animals to high concentrations, and there are honest differences among scientists as to how to extrapolate from experimental data to estimate risks to humans exposed to low concentrations. Despite the admitted uncertainties, no responsible scientist would dispute the validity or necessity of accepting data from animal experiments for revealing human cancer hazards.

The principles of carcinogenesis testing, so scorned by Efron, have been endorsed by the president's own Office of Science and Technology Policy (Federal Register, May 22, 1984), an agency that can hardly be accused of anti-industry bias.

Purporting to defend the American chemical industry against "ideological conspirators," this book will, I believe, be an embarrassment to this industry, which in the main understands and follows rules of prudence in protecting its employees and the public against health hazards. It was the chemical industry's own Institute of Toxicology in North Carolina that recently found that formaldehyde is a carcinogen, using the very methods and principles condemned by Efron.

Despite a stupefying 500 pages, the author contributes little to deserve praise, let alone attention, in a magazine professing reason.

Sidney Weinhouse
Professor of Biochemistry
Temple University
Philadelphia, PA

Edith Efron replies: Dr. Weinhouse is in error. He recites the entire rationale for linear extrapolation and the one-hit theory *as though* it is not in my book. It is—in the thresholds and risk assessment chapters. He will find all his ideas, major and minor, accurately presented and he will also find half of his letter, almost verbatim, on page 226. I state, as he does, that this is the dominant theory in the cancer prevention world, and it is unsurprising that Reagan scientists espouse it.

He is again in error when he says that I mock the "principle" that one cannot calculate safe doses and argues with me *as though* I say that one can. The inability to perform a calculation is not a scientific principle. And I say, as does Dr. Weinhouse, that one cannot perform it.

He is yet again in error when he says that I "condemn the methods and principles" of animal testing and when he implies that I deny the significance of animal carcinogens. I *never* opine on biological and statistical matters. I do quote hundreds of Dr. Weinhouse's responsible colleagues on the problems of animal testing. If *they* said something to upset him, he should write to them. And I say and demonstrate clearly that what causes cancer in an animal may cause cancer in a human being.

Further: he invents facts. He says I "purport to defend the chemical industry." I don't. I *explicitly* said that I kicked industry data out of my book because they are "discredited." And I do not use the term "ideological conspirators." He invented that quote.

Dr. Weinhouse has wasted his time arguing that the unproved one-molecule theory is not an ideological position. It isn't, of course, when it is simply an academic exercise in linear extrapolation. *It is, however, when it is used as a*

moral and political rationalization (a) for arbitrary risk assessment, regulation, and banning; (b) for invoking a zero-risk policy, and (c) for invoking a zero-risk policy for synthetic carcinogens, as does the FDA, while hiding from the public the carcinogenicity of natural foods and cooking methods. Dr. Weinhouse cannot refute an argument that he evades by misrepresenting and abusing my book. The alleged emotions of the chemical industry are irrelevant to these issues.

Exposing Regulation For What It Is

I found Lester Hunt's review of *Rights and Regulation* (The Book Case, Oct.) entirely inadequate and below REASON's standards. He may as well have said, "I like this book even though I did not know what it was talking about." It is odd, a contributor to REASON—especially one who teaches philosophy—who does not know what regulation is.

Regulation is simply the delegation, by the legislative branch, of law-making authority to an executive department. This means giving that part of the government that enforces laws the power to make its own laws. What could be more subversive to a representative system of government? Why was Hunt so milk-toast about the subject? REASON's readers deserve better.

Steven B. Vandervelde
Columbia, SC

Big Brother on the Road

In "Road to Insolvency" (Further & More, Oct.), REASON once again is pushing the idea of electronic metering of automobiles for their use of roads. This would be a good idea in theory, but given the government control of roads in the United States, it would be totally unacceptable in practice.

First, it would be very easy to set up a system where a driver could be timed between two points, and then fined for driving in excess of the (ridiculously low) 55-mile-per-hour speed limit. Radar and airplanes already give the police more than enough advantage right now.

Second, the government would be able to track the whereabouts of any metered car, thus providing an easy way to intercept anybody on its hit list.

Even if an electronic metering system started out as a voluntary system, it's a pretty sure thing that it would later be made mandatory.

Robert S. Russell
Walnut Creek, CA

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brickbats

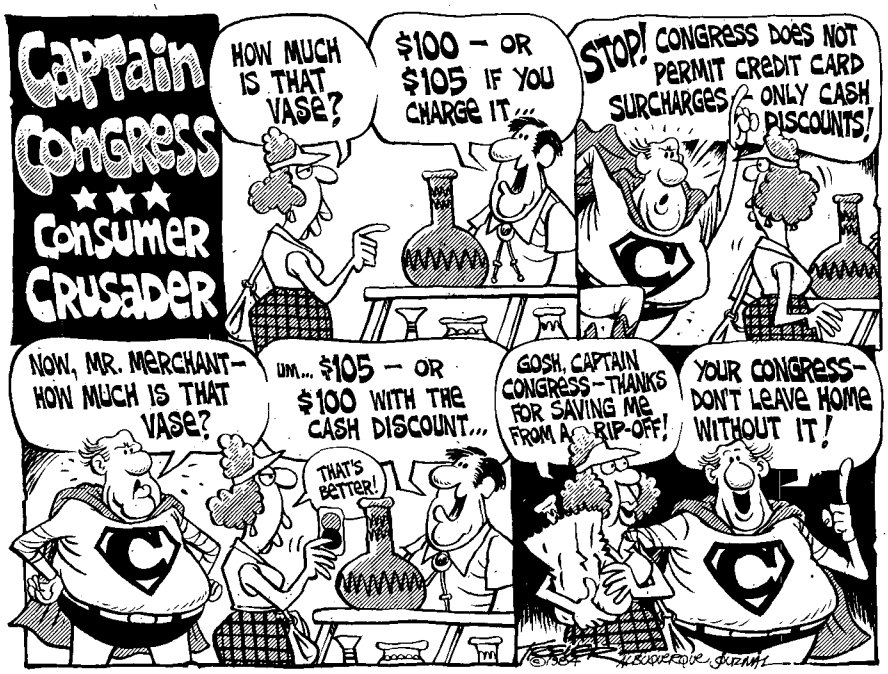
Irish officials thought they had a pair of Soviet defectors on their hands when a man on his way to Havana whispered that he wanted "protection" at a duty-free store at Shannon airport. After 20 minutes of questioning, it was learned that the lusty Russian "defector" didn't want political protection—he wanted sexual protection in the form of condoms. The authorities couldn't help the young lovers, though. In Catholic Ireland, the sale of condoms is prohibited except with a doctor's prescription.

Who says the use of marijuana is a victimless crime? Certainly not a Memphis, Tennessee, woman and her 73-year-old mother who both required hospitalization after seven police officers kicked in the door of their apartment on a drug raid. Wanda Messina, 52, was knocked to the floor by the cops and required 10 stitches to close a wound on her forehead. Her elderly mother collapsed in shock. "It appears we did make a mistake and raid the wrong apartment," commiserates assistant police chief J. D. Moore.

Kermit Haugen faces up to a year in prison and a $1,000 fine. Why? Well, the nefarious criminal was convicted of using live bait—namely, a worm—in a fly-fishing river in Yellowstone National Park. Haugen, who was with his son and a friend, baited the hooks and started fishing in the Firehole River, north of Old Faithful. After an hour of fishing, the only bite they got was from an undercover park ranger. Federal officials expected Haugen just to pay the $50 fine, but it's a matter of principle to the angler. He says he'll fight the conviction up to the Supreme Court. "We didn't know there was no worm fishing allowed, and I can't see paying a fine for something I didn't know was wrong," he says. So far, he's lost in court and spent $4,300 in air fare to get to his trial. But the worm may turn in the appeals process.

The way to get away with almost anything is to know the right people, announce publicly that the indiscretion was an "error in judgment," and promise never to do it again. That's exactly what New York City police commissioner Benjamin Ward did after a newspaper reported on some hanky-panky. It appears that Ward entertained a woman in his prison office at Rikers Island when he was the city's corrections commissioner. Ward also kept a private boat at Rikers Island and used the chief of marine security to help repair it. The newspaper also alleged that Ward, who's known for his tough stance against rank-and-file cops who bend the rules, appeared drunk and confused at a police union meeting. When introduced to 1,000 people, according to the *New York News*, Ward spoke at the wrong time, had trouble identifying top police officials, and called out to the audience: "Hi, everybody. I'm on vacation!" Mayor Koch said he would take no action.

Stephen Kenney of Kenmore, New York, is facing a jail term for failing to cut his weedy and wildflower-filled lawn. "I refuse to mow my lawn because it is an environmentally unsound practice and against my most basic principles," he says. Kenney's neighbors, however, say he's a kook who ought to be locked up. Kenney responded with a sign on his property: "This lawn is not an example of sloth. It is a natural yard growing the way God intended. It does not attract mosquitoes or other pests. The plants planted here do not emit noxious fumes. And no valuable natural resources like water or gas are wasted on this environment." Kenney's argument that it's nobody's business what he does with his property ran smack into a local ordinance that says undergrowth and accumulation of plant life must be controlled. Under the lawn ordinance, artificial grass is fine since there's no undergrowth. Plastic is okay, but wildflowers ain't.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Break-dancing, banjo-playing, juggling, singing, and even reciting poetry is illegal on Chicago's North Michigan Avenue, the city's "Miracle Mile" of shopping. The city council, which usually can't even agree on what time it is, unanimously passed an ordinance banning street performances in several expensive shopping areas in response to complaints from store owners and the musicians' union. The city contends that performers attract spectators who block sidewalks, obstruct traffic, and hurt business. The street performers believe in the free marketplace. "I try to find out people's attitudes toward my new material," says street banjo-player Walter Friedrich, who was nominated in 1980 for a Grammy Award for song writing. "If they walk right by, you know you're doing something wrong. If they stop, you know you're doing something right."

—MARK EDWARD CRANE

The Top Performers

Which Investment Advisor Will Make You The Most Profit Over the Next 12 Months?

No one can answer that question for certain. But Mark Hulbert can answer the next best questions. For certain. Such as which investment advisor has made the most profits during the *last* 12 months? How did he do it? What level of risk was involved? And, most importantly, who's making the most money *now*?

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Hulbert can tell you in any given month which advisor is doing best for the month...and which has the best *long-term* record. He also keeps track of their performance, adjusted for risk. "So you can make sure that you're not taking an unreasonable risk as you pursue extraordinary profits," he explains.

Hulbert's figures come out each month in his own newsletter called *The Hulbert Financial Digest*. This maverick publication digests the advice of other financial experts – including such well-known advisors as Jim Dines, Howard Ruff, Harry Schultz, Joe Granville, Martin Zweig and many others.

(It may interest you to know that one of that group has a portfolio that made a profit of 151% during the first quarter of 1984 alone. Who has the hot hand?)

The *Hulbert Financial Digest* presents a summary of the advice offered by the experts he covers, along with an analysis and commentary from the editor.

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Since Hulbert began work on this project five years ago, *The Hulbert Financial Digest* has been extremely well received by the hard-pressed investors who have tried it. That is probably because it virtually guarantees access to the best investment advice around at a very modest price.

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One of the investment advisors who has made a lot of money for his subscribers lately is Jim Dines. Dines has four portfolios followed by Hulbert. In a recent 12-month period, one of these portfolios made a gain of 336%. Overall, his portfolios averaged more than 80% profit.

Another star performer in the beginning of 1984 was *The Option Advisor*, with first-quarter gains in its two portfolios of 89% and 98%. It should be pointed out, though, that *The Option Advisor lost* more than 90% of its value during the preceding year.

"The investors who subscribe to my service," says Hulbert, "have a clear advantage over those who don't." Not only does *The Hulbert Financial Digest* tell investors which investment advisors are doing best, it also distills huge amounts of verbiage into a simple, straightforward summary. This enables the busy investor to get the most useful information in the least time.

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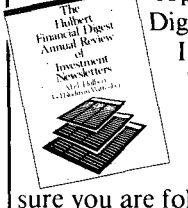

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RJ

TRENDS

HOME-GROWN PROTECTIONISM EXPOSED

The US Constitution prohibits barriers to free trade among the states of the Union. The first of the burdensome federal regulatory agencies, the Interstate Commerce Commission, was established ostensibly to facilitate interstate commerce. A host of other federal regulations have been passed in the name of free trade. And yet, interstate protectionism is rampant throughout the land—a fact now brought to light by two University of Houston economists.

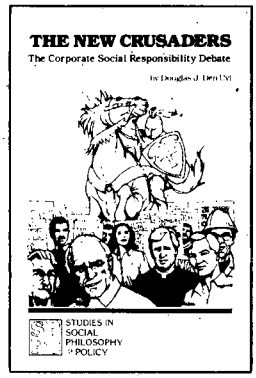
Steven Craig and Joel Sailors of the University of Houston's Center for Public Policy figure that barriers to interstate commerce cost consumers as much as $150 billion a year in higher prices, all because the legal minds who inhabit state capitals have found ways around the constitutional prohibition.

The two economists found some 1,500 restrictions on interstate agricultural trade alone in 11 Western states. For example, in their home state of Texas, where grapefruit agribusiness is a powerful special interest, the state government cannot legally placate the grapefruit growers with import quotas on out-of-state grapefruit. Instead, the philosopher-kings in Austin impose "maturity standards" requiring that grapefruit sold in the state must be nine parts of sugar to one part acid. Just by coincidence, *Florida* grapefruit averages only 7.5 parts sugar—so in the Lone Star State, it is forbidden fruit.

Power-drunk state governments occasionally impose taxes, marketing regulations, and licensing requirements on out-of-state wine but not on wine produced within their states. And virtually every state has extensive laws protecting home-based banks from out-of-state and foreign banks' competition.

One of the most extensive protectionist measures, even though it's not often recognized as such, is state licensing and certification of professionals—doctors, cosmetologists, attorneys, dentists, teachers, psychologists, etc. There are more than 2,800 such state laws, according to one study cited by Craig and Sailors. Their effect is to restrict the interstate mobility of more than seven million workers and to inflate artificially the wages of state-licensed workers (dentists' incomes, for example, are an estimated 12 percent higher than they would be in a free market, according to one study cited by Craig and Sailors).

The study of interstate protectionism was the subject of a recent article in the *Christian Science Monitor*, and Craig told REASON that he and Sailors have gotten a number of requests for copies of the study. He also noted that they are currently working on a follow-up study of states' "purchasing preference laws." These provide that when a state solicits bids for products or services, out-of-state bidders operate under a handicap, such as submitting a bid at least five percent lower than the lowest in-state bid in order to get the contract. (The five percent figure is typical, but New York State actually specifies a 20 percent han-



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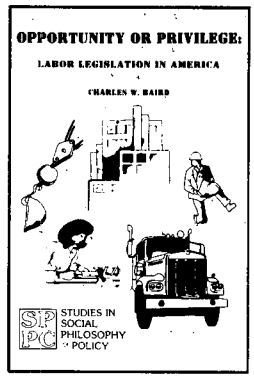

THE NEW CRUSADERS, by Douglas J. Den Uyl, stands almost alone as a defender of the corporation as a profit maximizing enterprise. Social activists who challenge corporations on issues of social responsibility will find this book difficult to dismiss. On issue after issue — South African divestiture, plant closings, environmentalism, etc. — Den Uyl ably refutes the activists' positions.

OPPORTUNITY OR PRIVILEGE, by Charles W. Baird, is an exhaustive survey of the history of labor legislation and the emergence of compulsory unionism in the U.S. Baird examines the social and economic impact of the heavily regulated labor market and argues that a free market in labor — one premised on individual rights and voluntary exchange — would prove both more just to everyone involved and more economically efficient.

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dicap for a few of its contracts.)

Because of this scheme, taxpayers pay through the nose for products and services that could be obtained more cheaply from out-of-state sources. In 1977, 20 states had purchasing preference laws, and Craig and Sailors calculate that they spent an extra *$3 billion* that year alone because of it.

There are a few glimmers of hope in all this. In at least two cases, the Supreme Court has declared protectionist measures unconstitutional—once in North Carolina when it tried to restrict the importing of soft drinks with tax and administrative burdens, and again in Louisiana, which tried to tax oil-field equipment manufactured elsewhere.

And the Craig-Sailors study is itself an encouraging sign. The two economists have performed the substantial public service of defining and publicizing the problem.

TUNING IN ON RADIO DIVERSITY

If the Chicken Littles who have spent years clucking about the dangers of broadcast deregulation were right, then radio—the medium in which deregulation has been most substantial—should by now be a monotonous wasteland, dominated by a few big corporations, with the interests of listeners ill-served. Instead, thanks to the feared deregulation, radio today is chock-full of dazzling and innovative things.

Take Dr. Demento, a disc jockey described by the *Los Angeles Times* as "offbeat." For some years, Demento has been an institution in the Los Angeles area, playing such sedate tunes as "The Homecoming Queen's Got a Gun," "99 Dead Baboons," and "The Boa Constrictor Ate My Wife Last Night." Ten years ago, in the stodgy days before deregulation, the good "doctor" tried to get his program syndicated nationally by the five major radio networks, but each turned him down. In those arid times, universal acceptability was what networks looked for, so the Dementos of this world had little hope.

But in the Carter administration, things began to change. Charles Ferris, then the chief at the Federal Communications Commission (FCC), successfully pushed a measure that broke a monopoly on communications satellites held by Comsat. The result was dramatic. As satellite technology advanced by leaps and bounds, the cost of renting signal relay time on a satellite fell tremendously. And more was to come.

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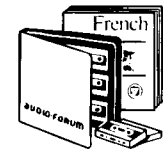

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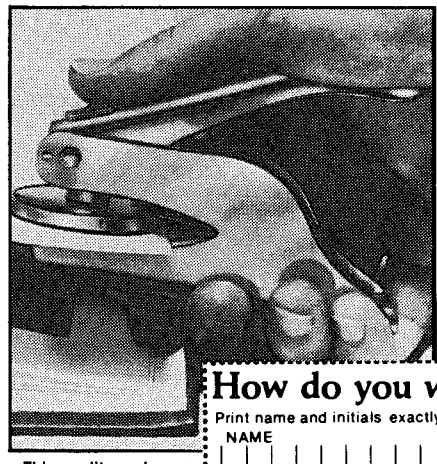

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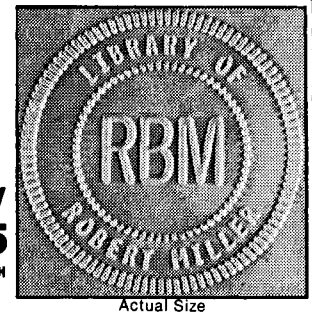

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In the Reagan administration, Mark Fowler succeeded Ferris at the FCC and proceeded to do away with most regulation of broadcast content. Now, it's not only economically feasible for almost anyone to get into the business, but in addition radio stations are no longer hindered by cumbersome "public-service broadcasting" requirements and the like. The result: scores of broadcast entrepreneurs have sprung up to peddle all sorts of shows to radio stations across the land, satisfying an amazing variety of listeners' preferences.

Westwood One, which operates out of a converted warehouse in Los Angeles, is such a company. Using satellite technology, they syndicate Demento's show every Sunday night to 175 stations across the country. No longer is Demento at the mercy of the five big networks. As New York consultant Jim Cameron exultantly told the *Los Angeles Times*, "Anybody can be a network."

Deregulation's critics who yearn for diversity should note that Westwood One also produces a country-music series, *Live from Gilley's*; a rock star talk show, *Off the Record*; and several rhythm-and-blues programs. Other companies are selling shows ranging from exclusive film reviews by the president's son, Ron Reagan, to an advice show featuring a New York sex counselor named Dr. Ruth Westheimer.

Diversity is also flowing from another FCC move—deregulation of Subsidiary Communications Authorization channels (SCAs). These subchannels are superimposed on a standard FM broadcast signal and are generally leased by FM stations to third parties (for office Muzak, readings for the blind, etc.). In the past, FCC regulations specified that an FM station could use only one subchannel, even though more were technically feasible; with few exceptions, the information on the subchannel had to be voice or music; and an SCA could be on the air only while the station was using its main audio.

Now, those rules are out the window.

GLOBAL TRENDS

CONTRAS DO BETTER WITHOUT THE CIA

JINOTEGA PROVINCE, NICARAGUA—When I first went on patrol inside Nicaragua with a group of "Contras" from the Nicaraguan Democratic Force (FDN) in late 1983 (see "Fighting the Soviet Imperialists: The Contras in Nicaragua," June-July 1984), the guerrillas were limited to hit-and-run raids launched into northern Nicaragua from Honduras. They were undergoing the birth pangs of a newly formed liberation movement, high on enthusiasm and committed to ridding their country of Soviet Marxist tyranny—but low on experience, training, and military competence.

Upon my return in the fall of 1984 to spend a few days at the FDN Strategic Command in Jinotega Province, I witnessed a very different situation—and a strikingly improved guerrilla army.

In the interim, the US Congress had cut off CIA support to the guerrillas. But Enrique Bermudez, the FDN's director of military operations, told me that "in many ways, it has helped us." He reported that although they are running low on certain types of ammunition, "because of the cut-off we have discovered how many friends we have around the world. And we don't have to worry about the *penguinos* [Spanish for 'penguins,' the Contras' nickname for CIA agents, who are always dressed in suits and ties] telling us what to do anymore."

The FDN guerrillas said that they have over 12,000 armed members fighting inside Nicaragua, with a permanent presence in eight provinces. In addition, the Miskito Indian guerrillas of MISURA, an allied group led by Steadman Fagoth, have some 1,500 fighters in northern Zelaya province. No more hit-and-run raids. Now the Contras are staying and fighting.

Top FDN commanders stopping over at Jinotega headquarters talked of their growing support among the Nicaraguan people. "Many people are calling us *los muchachos*," one of them observed. ("The boys" is a term of affection that many Nicaraguans applied to the Sandinistas when they were guerrillas themselves fighting Somoza.) "More and more," he went on, "people are beginning to lose their fear of the Sandinistas as they see we are growing stronger and the Sandinistas more on the defensive."

According to another commander, "It's much easier for us to fight the *piricuacos* [rabid dogs] now, as they have so many new draftees with no experience and a complete lack of desire to fight us. On the other hand, my men are battle-tested. They are becoming extremely good jungle fighters, and their morale is higher than ever."

The chief of the military training center, famous for his escape from Tipitapa Prison near Managua in 1983, talked of how recruits are pouring into the camp—mostly small, peasant farmers and students escaping the Sandinista draft. "The *turbas* [Sandinista gangs] are so desperate they are raiding high-school classrooms right in session and movie theatres, grabbing young boys and forcing them into the army. We have so many wanting to fight with us now, that if we had the supplies and equipment we could have a force of 20,000 in the field within six months, and 50,000 within a year."

The Contras said that in the first nine months of 1984 they had taken 630,000 pounds of equipment and supplies inside Nicaragua to their forces. I also heard reports that more weapons and ammunition are being captured ("Most of our AKs now are captured," according to one commander) and that some Sandinista militia units are so demoralized that they are starting to sell ammunition and supplies to the guerrillas.

The Contras' strategy as of early fall: to expand their area of control from northern Jinotega and cut off the Pan American Highway and this key area from the rest of the country. They talked about a program called RIC (Clandestine Internal Resistance) being in place in Nicaragua's principal

(Continued on p. 16)

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GLOBAL TRENDS

(Continued from p. 14)

cities with 7,000 collaborators and sympathizers. "The Sandinistas have 83 RIC members in jail," one Contra acknowledged. "But since the RIC is organized in discrete cells, no one person can betray more than two or three others."

Alongside their optimism, the guerrillas admitted to a need for materiél—light arms, grenades, mines, boots, medicines, and money for paying organizers and informers. Yet, responding to the early October appearance of Daniel Ortega at the UN and his charge that the US government was planning to invade Nicaragua, one Contra told me, "We do not want and we do not need the Americans to fight for us."

—JACK WHEELER

FREEDOM SOCIETY MEETING

CAMBRIDGE, ENGLAND—Classical liberal ideas are making great progress in Europe, especially among scholars. Many of the new generation of individualists were in attendance at 1984's biannual international meeting of that now-venerable institution among classical liberals, the Mont Pelerin Society, founded in 1947 by F. A. Hayek and other leading defenders of the free society.

The 1984 meeting, held the first week of September at Cambridge University, built its opening session around two anniversaries—the publication of Hayek's *The Road to Serfdom* in 1944, and George Orwell's *Nineteen Eighty-Four*. Philosopher John Gray (Oxford University) presented a very good study of *The Road to Serfdom* based on the extensive work he has been doing on Hayek. Gray urged participants to "be ready to accept the view that, within the history of our own intellectual tradition, there may be weaknesses which have contributed to the rise and domination of socialist ideas." Henri Lepage (Paris) presented an insightful comment on the intellectual roots of *The Road to Serfdom*: he asked if there might not be a built-in philosophical bias in the constructivist rationalism that Hayek sees as the basis of socialist and interventionist thinking.

The sessions "The Clash of Security and Progress" and "Private Resistance to Private Property" brought out lively discussions. Craig Stubblebine and Rodney Smith (Claremont McKenna College) analyzed the intellectual and political obstacles to increased popular pressure for free markets and greater recognition of private property rights. John O'Sullivan (*Daily Telegraph*, London) noted the growing constituencies for property rights and markets in the United Kingdom created by the sale of "council housing" to tenants at large discounts (see REASON, Trends, Oct. 1984). Henry Manne (Law and Economics Center, Emory University) examined three privately organized institutions in capitalist countries that are generally hostile to libertarian economic policies: organized churches, private universities, and private grant-making foundations.

A debate between monetarist and Austrian economists has become a tradition at Mont Pelerin Society meetings, and the latest gathering was no exception. Some of the debate this time focused on Milton Friedman (Hoover Institution), who presented a paper titled "The Economic Contributions of John Maynard Keynes." Friedman's comments on money indicated much less distance than might be assumed between monetarists and Austrians. To everyone's pleasure, one of the most important Austrian economists, William Hutt (University of Dallas), was able to attend at the age of 85 and to make his usual insightful contributions. John Greenwood (*Asian Monetary Monitor*, Hong Kong) also lent valuable analysis on monetary questions.

Important perspectives on the economics of public choice were presented by James Buchanan (George Mason University) and Pascal Salin (University of Paris). Lord Bauer (London School of Economics) and Roland Vaubel (University of Mannheim) analyzed international economic crises.

But the most animated discussion occurred around the paper of Shirley Robin Letwin (Cambridge University), "Moral Agreement in a Free

(Continued on p. 18)

A station can broadcast as many SCAs within its spectrum range as it wants, and it can broadcast any kind of information it chooses. Within a period of months, this has opened up a cornucopia of possibilities. A New York firm is renting time on a local FM station's SCA to send stock information and wire-service reports, in text form, to subscribers. Banks are reportedly using SCAs to exchange financial data. A German company is developing a traffic-bulletin system. Utility companies are using SCAs to prevent overloads by remotely switching off customers' air conditioners, outdoor lighting displays, and large appliances. And some companies are working on an SCA-based paging system that can locate a subscriber anywhere in the country via an FM network.

Meanwhile, the stolid Chicken Littles are agitating against further deregulation of television. But the evidence from radio deregulation argues against their baleful predictions.

FLY ME, I'M DEREGULATION

Just as surely as the sun rose in the east and set in the west, flying on planes used to be expensive and taking a bus was cheap—back in the days before transportation was largely deregulated. How times change. Today, air fares are so low that flying is within reach of many people who never could have afforded it previously. Indeed, on many routes, it is actually cheaper to take the more-convenient airplane that to ride the bus. It's one more boon to consumers from the long-fought deregulation.

Recently, the *Wall Street Journal* reported on the phenomenon. It noted that traveling from Norfolk, Virginia, to Newark costs $50.55 on Greyhound and $56 on Trailways—but only $27 on some People Express Airlines flights. And on Greyhound, the fare between Newark and Syracuse is $36.10 for a trip that takes about 5½ hours, while People Express charges $27 for a Newark-Syracuse flight that takes an hour and 20 minutes. "It's just easier to fly," said Sarah Fein, a 21-year-old Syracuse University student who had taken the Newark-Syracuse bus for three years but now flies People Express.

People Express operates mainly on East Coast routes. The same phenomenon, however, is to be seen in the West and Southwest with Southwest and

Pacific Southwest airlines.

Bus-company officials are alarmed by the new threat to their hegemony in the low-cost travel market. "There's a lot of competition with the airlines, but it's not freely admitted," Terry Underwood of Greyhound Lines, Inc., told the *Journal.* Robert Buschner of Trailways noted, "The degree to which they have seats available is the degree to which they'll hurt us." From 1980 to 1983, intercity bus ridership dropped from 370 million to 365 million, while air ridership climbed from 296.6 million to 317.9 million.

In response to the new freer climate, the major bus companies are taking countermeasures to improve their image and make their service more appealing to travelers who might ordinarily take to the air. The bus companies are also sensitive to price differences between them and the airlines. When Southwest Airlines started a Dallas–Little Rock route that matched the Trailways bus fare of $47 and $32 on weekends, Trailways lowered *its* fare to $30.

Can the bus companies meet the new competition? It's too early to tell, says the *Journal,* whether they can hold their own on major routes or will shift to cities too small for the low-cost air carriers to serve profitably. In any event, one thing is clear: air travel is far more accessible for Sarah Fein and thousands of other travelers like her. They have deregulation, and the competition it engendered, to thank. It's hard to imagine more effective consumer protection—the ostensible rationale for the now-grounded regulatory scheme.

IMPROVING DE-BASING

Pork-barrel politics has made it nearly impossible to close obsolete military bases, but a recent article in *Industry Week* offers hope.

Frequently, a military base affects a nearby town's economic life the way heroin affects an addict: it spawns glorious fantasies, it's outrageously expensive, it saps any natural vitality that was there before, and people are falsely convinced they can't live without it. So when the federal government contemplates closing a base as an economizing measure, local pols and community leaders usually put pressure on their representatives in Washington to urge that the base be kept open to preserve local jobs attendant upon the base's loca-

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GLOBAL TRENDS

(continued from p. 16)

Society." She argued that a free society entails the acceptance of definite limits on what is arguable in thought and tolerable in behavior. Finally, there were a number of interesting sessions on themes such as labor unions, socialist economies, science and public policy, religion, and South African enterprise zones. It all added up to a stimulating meeting, with issues that are sure to come up again at the next biannual meeting in Turin, Italy.

—LEONARD LIGGIO,
Institute for Humane Studies,
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CAUTIOUS OPTIMISM FOR BRAZIL

RIO DE JANEIRO—From the time it became a Portuguese colony in the early 16th century, Brazil has been mired in political and economic crises. The last 20 years have been no exception.

The military coup of 1964, which was to put an end to the socialist advance of that time, has actually managed to push the country so quickly along the statist path as to leave the more-perceptive socialists cheering on the sidelines. "We are pleased to see that Brazil is well on the way to full socialism; it's only a matter of time now," Cuba's foreign minister told a visiting group of Brazilian businessmen early last year.

The military regime's interventionist policies are legion. They include government-induced inflation in the name of pumping up the economy, quasi-central economic planning, and New Deal–style development projects—giant state-owned utilities, gargantuan dams whose turbines now stand idle, subsidized and state-owned steel mills, unnecessary highways through the jungle, and other massive "investments" in "infrastructure." The result is that the economy has indeed been made largely dependent on the state.

Worse, perhaps, the generals' "anti-communist" repressive policies have weakened what remained of liberal institutions and the law. Predictably, socialism has blossomed in this favorable environment.

But everything is not necessarily lost as far as freedom is concerned. For one thing, corruption and disobedience can be tools of freedom, and Brazilians use them regularly to make authoritarian policies somewhat inoperative. For another, 20 years of military government have made almost everyone more suspicious of statist promises. In fact, government control of the private sector and state-owned companies' share of GNP grew to such proportions in the late 1970s that fear of totalitarianism became a serious question, commonly debated in newspapers and classrooms.

Such apprehension finally led to a policy of gradual "decompression" toward free elections and democratic government. The last military president is to step down in March, and power will be transferred to a civilian affiliated with a party and chosen by an electoral college.

A wave of cautious optimism is sweeping the country. Among the optimists is 34-year-old Paulo Guedes, who has a Ph.D. in economics from the University of Chicago. Guedes is executive vice-president of the Brazilian Capital Market Institute, a free-market think tank, and teaches at Rio's Catholic University.

In a recent interview with *Senhor*, a left-leaning business magazine, Guedes predicted that the political decompression will lead to "decentralization at all levels of government activity" and "a profound restructuring of the industrial sector." Guedes noted that the government is already making an effort to "debureaucratize" and is studying a policy of freeing small businesses from a stifling tax and regulatory burden.

Guedes might also have mentioned the selling of several state enterprises and the creation of small-claims courts. It is hoped that the new institution will free up the present court system.

These are admittedly minor developments, with tentative implications for individual freedom and economic liberty. But in a country that has an authoritarian past and until recently was haunted by the specter of totalitarianism, such slim pickings may well be the harbinger of better days.

—JOSE ITALO STELLE

tion there. But now comes news that it is possible for a town to kick its base habit and survive—by privatizing the military site and converting it into a factory or industrial park.

The advantages of these "ghost towns," noted *Industry Week*, are extensive existing facilities (buildings, paved roads, water and sewer systems, and often runways), additional undeveloped land, and a skilled labor force. According to the federal Office of Economic Adjustment (OEA), 94 communities that it monitors have lost 88,000 jobs as a result of base closings—but these same communities have gained *124,000* new jobs in the private sector.

Industry Week reports that some 200 former military installations are undergoing conversion to civilian use. One example is in Chippewa County on Michigan's Upper Peninsula. When the Kincheloe Air Force Base there closed eight years ago, the area suffered a loss of 700 jobs and $36 million in payroll and related revenues. But a local economic-development authority was set up to work with the OEA and local investors to convert the base into an industrial park. Low-interest loans to businesses and bargain-priced leases on space have brought almost 30 companies into the industrial park. And over 1,000 new jobs have been created, more than compensating for the loss of the Kincheloe Base jobs. And 200 more are in the offing when a firm purchases an explosion-proof facility for $1.2 million (a bargain compared to constructing anew).

Not all communities have dealt with a base closing nearly as well as Chippewa County. *Industry Week* noted that not enough business executives are aware of the potential at closed bases.

If the awareness spreads, it could go a long way toward alleviating the scandalous waste of taxpayers' money involved in maintaining unnecessary bases in the first place. (A few of the most egregious examples—Fort Douglas in Utah, built to protect the stage route to the West in the last century; and Fort Monroe in Virginia, complete with a medieval moat—were detailed in REASON in "Hill Bent on Spending," Nov. 1984.)

In her recent book *Cities and the Wealth of Nations*, Jane Jacobs points out how such bases are a drain on the overall economy. She describes a scene at one base in North Carolina: "loaded trucks rumble through the gates, bumper to bumper, throughout the cargo receiving hours of the day, bringing in their freights of peanut butter, business

machines, dental drills, mattresses, chain-link fencing, shoes, file folders, light bulbs, detergents, cooking ware, spaghetti." All this production is "irretrievably useless," she notes, "owing to its destination."

Thus, conversion from unnecessary military installations to productive, private-sector uses—getting off the government dole—is not only quite feasible but very desirable. It gives the Biblical injunction to make swords into plowshares a whole new meaning.

SMALL BANKS SURVIVE BIG CHANGES

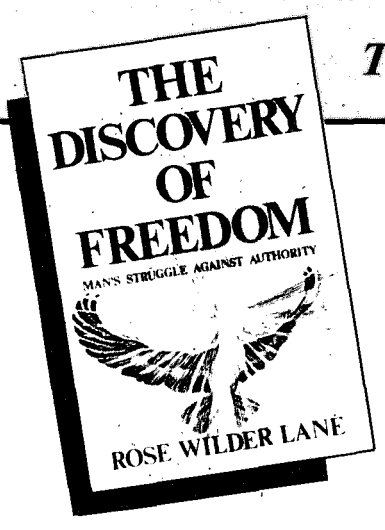
Mention banking deregulation in some circles, and you're likely to hear defenders of the old order warning that deregulation will be the death of small-town and rural banks. According to this prediction, rapacious big-city banks will steal customers from their country cousins by offering high-interest accounts. The doomsayers warn that the small-town bank, that stolid bulwark of republican virtue, will then be headed for the same fate as the dodo bird. So it's interesting to note that although deposit deregulation has been a fact of life for two years now, many small-town banks are prospering.

For example, Joseph Reed of Grant County Bank in Medford, Oklahoma, told the *Wall Street Journal* recently, "I worried a lot about deregulation before it came," but "the public hasn't swarmed on these high-paying accounts like we thought they would." Reed's bank is evidently not unusual. As the *Journal* noted, "many small-town banks have remained among the most profitable in the country because their customers—whether through loyalty, torpidity or a lack of handy alternatives—have left billions of dollars in low- or no-interest accounts."

The *Journal* asked some residents of Matador, Texas, about their local bank, First State Bank, which has a policy of paying no interest on deposits yet holds $7 million of Matadorans' money. Rancher John Russell, noting that the bank offers him and other small ranchers loans at two to four percentage points less than the competition, said, "They've been good to me, so why shouldn't I be good to them?"

Grocer William Wason recalled that First State Bank made a loan with only six percent interest to the First Methodist Church when its roof fell in. And one elderly Matadoran kept "a substantial sum" in First State rather than putting it in interest-bearing accounts elsewhere, because she wanted her money "close by where she could get at it if she needed it."

Customers' preferences combine with other factors. Federal Reserve Board economist Stephen A. Rhoades noted last July that small banks are nearly as efficient as large banks and usually better capitalized and more profitable. Even though a variety of high-interest accounts and money-market funds are available, there is now an estimated $307 billion sitting in low-yield passbook savings accounts, one of the pillars of small-town banks. This is only $56 billion less



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than when deposits were deregulated.

Deregulation is not always a rose garden. It tends to weed out the most inefficient providers of services. But the record of the last two years strongly indicates that small-town banks aren't about to be crowded out by big banking concerns.

HOW TO CLEAN UP SUPERFUND

If there were a Pulitzer Prize for euphemisms, "Superfund" would deserve special mention. Former Environmental Protection Agency (EPA) analyst Fred Smith, Jr., describes the billion-dollar toxic-waste cleanup program as "a classic public-works program enacted as a political response to the safety concerns of the American public." In a recent *Wall Street Journal* article, Smith pointed out some of the most glaring flaws in the program—and suggested market-based alternatives.

Smith, who now heads the Competitive Enterprise Institute in Washington, points out that Superfund, set up in 1980, is structured to be a "free good." The EPA-run program pays 90 percent of the cleanup costs for toxic-waste sites, so local politicians have an enormous incentive to lobby for sites to be placed on the Superfund cleanup list—regardless of how much or little danger the site actually poses to the community. "If funding permits, we may find ourselves 'gold plating' all 22,000 potential sites," Smith notes. "That, according to General Accounting Office estimates, might cost about $26 billion."

Another big flaw in Superfund is the senseless way it is financed. Much of its money comes from a special tax levied on petroleum and certain chemicals. This is completely contrary to the idea of restitution for actual damages, or as Smith calls it, the Polluter Pays Principle. The companies that pay into Superfund have no say in how hazardous sites are managed, Smith notes, and "even if a company did reduce these risks [of toxic waste], its tax burden would remain unchanged." Thus, he concludes that Superfund "creates no incentives for anyone to reduce the risks associated with dumps—existing or future."

But there is a bettter way of doing things. Smith recommends a market-based, property-rights approach to the problem. For one thing, he suggests that environmental resources such as aquifers and surface waters should be recognized as property and owned privately. The owners would naturally have an incentive to protect their property. He also suggests that in some cases, a better alternative to restoring a polluted site would be to compensate individuals and property owners for damages.

Smith also argues that the marketplace already has a mechanism to help guard against toxic-waste problems in the future—insurance. He suggests that the EPA with its Superfund might withdraw from the cleanup business and instead require the parties responsible for the waste problem "either to clean up the site or purchase insurance to safeguard those individuals and property owners in the exposure region."

Would insurance companies in that case sit by passively, waiting for hazardous waste to cripple and kill hundreds of people so it could compensate the widows and orphans? Hardly. It would be in the interest of insurance companies to investigate hazardous-waste sites closely, assess their risks, and require their clients to take protective steps.

Smith is correct in suggesting that the Superfund is an expensive political monstrosity whose fundamental premises make little sense. However, that doesn't mean that its vaunted goals of managing and cleaning up hazardous waste are bad—only that a free-market framework would allow them to be met far better.

LENDING ADVICE FOR UNCLE SAM

The federal government's fantastic borrowing binge is well known, its debt soaring to ever-dizzier heights by the second. Uncle Sam's lending habit, however, is a less-publicized matter, though by the end of fiscal year 1985 federal loan liability will exceed *$1 trillion.* But recently submitted legislation, based on a government study of federal credit activity, may put some checks on the loan-happy feds—*and* help reduce the national debt by billions, as well.

The government's extensive credit activity includes direct loans (such as to

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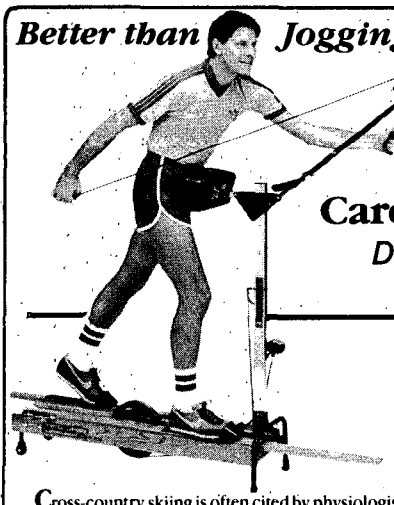

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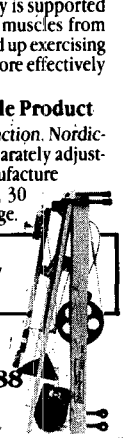

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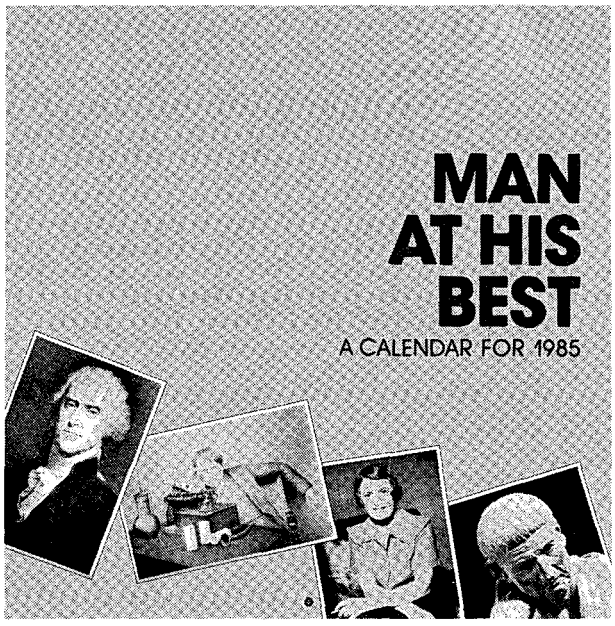
farmers and small businesses), guaranteeing of loans (such as housing and student loans), and loans by government-sponsored enterprises. Only a fraction of this activity shows up in the federal budget, so the true cost is not readily evident to taxpayers. A March 1984 study by the Congressional Budget Office (CBO) estimated that budget understatement to average about $20 billion a year.

In its study of federal lending activity, the CBO documented the government's mushrooming credit programs—Congress has created more than 350 over the last two decades—and suggested ways to reform the system. One proposal is particularly noteworthy: privatize federal lending. Specifically, under the CBO's "market plan" the government's direct loans would be sold to private purchasers (just as banks sell mortgages to investors). And federally guaranteed loans—private loans, such as student loans, on which the government guarantees to pay back the principal and interest if the borrower defaults—would be reinsured by private carriers.

Writing in a recent issue of *Business Week*, Clifford Hardin and Arthur Denzau, both of Washington University's Center for the Study of American Business, called attention to the CBO proposal, noting that it "would make the true costs of federal loans visible to taxpayers and hold the promise of saving the federal government billions of dollars." According to the CBO study, the sale of outstanding direct federal loans, with a face value of $225 billion, over a two-year period would net $95 billion. That one-time revenue, the CBO suggests, could go to reduce the public debt, thereby permanently lowering federal interest payments by about $10 billion annually.

Hardin, a former secretary of agriculture in the Nixon administration, told REASON that he and Denzau have had a "continuing conversation" with the staff of Sen. Paul Trible (R-Va.) and Rep. Willis Gradison, Jr. (R-Ohio), who have submitted legislation incorporating the CBO proposal and requiring that all costs of federal credit assistance would have to be recorded as such in the budget. Hearings on the Trible-Gradison proposal were held during the summer congressional session, and the bill could come up in the first session of 1985.

Though the legislation would not put Uncle Sam out of the credit business—the government would still extend loans (that it would later have to sell) and would purchase insurance to guarantee others—the legislation would put the true costs of these activities before taxpayers' eyes. And that, at least, might awaken some to what Harding and Denzau call the "nightmarish tangle of uncontrolled federal lending."



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MILESTONES

• *Three beeps for deregulation.* In September, the City Commission of Wichita, Kansas, substantially deregulated the town's cabs and limousines. It's now much easier to enter the cab business, and for the first time taxis may offer shared rides, fixed routes, and discount prices.

• *Daft draft shafted.* Gillam Kerley, a draft-registration resister in Madison, Wisconsin, won a dismissal of his indictment for failing to register with the Selective Service—and he did it without a lawyer. He said he wanted to "speak with the jury person-to-person . . . so that they could see I was a real human being."

—ROBERT W. POOLE, JR.,
PAUL GORDON,
AND ERIC MARTI

THEIR BUSINESS IS ROCKETS.
THEIR DREAM IS SPACE.
THEIR BANE IS NASA.

SPACE ENTREPRENEURS

Gary Hudson needs $100 million, maybe $200 million. He needs the money to fulfill a dream: he wants to build a spaceship. If he succeeds, he is certain that he will make a fortune—and that anyone who backs him will, too. But first, he needs $100 million, maybe $200 million.

Hudson is one among a number of entrepreneurs who have been trying to develop "launch vehicles" for transporting things into space—satellites, people, manufacturing facilities, whatever. These entrepreneurs and their efforts to develop low-cost alternatives to government-funded and government-controlled space transportation systems have caught the imagination of documentary filmmakers and the mainstream media, from *Esquire* to the *Wall Street Journal.*

They are a colorful lot, and they've had their small successes. But the story of the conquest of space by private enterprise can't be written yet. And upon in-

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BY PATRICK COX

vestigation, it appears unlikely that that story will be written for some years to come.

The roaring, enthusiastic energy that was associated only several years ago with the beginnings of the free-enterprise launch business has taken on a bitter edge. The groups of mostly young entrepreneurs and engineers are running up against a major obstacle to their dreams of space exploration and financial success. That obstacle is not a lack of energy or talent or ideas. Ironically, it is the National Aeronautics and Space Administration, the very organization that has fueled so many Americans' fascination with space.

The problem is that NASA is a taxpayer-funded monopolist of space transportation—a bureaucratic empire, with a budget of billions, that presents its Space Shuttle as *the* best, *the* most economical—*the only*—way to get into space. Its current, on-the-record, official line is one of encouraging "the commercialization of space." But behind the scenes there are NASA policies, actions, and attitudes reflecting a dogged determination to keep space transportation a government monopoly.

Yet for people like Gary Hudson and others who are trying to develop low-cost space transportation, NASA's monopolistic stance amounts to a war against those efforts. This investigation has turned up evidence that at a high level NASA has even resorted to "hardball" pressure tactics in an attempt to deliberately stifle the development of a private space transportation industry (see sidebar, page 27). But for the most part NASA's war against space entrepreneurs is a subtle war; the obstacle it poses can be traced to its very existence.

Navigational radio services are available to anybody with the right receivers. Satellite imaging services relay pictures of the Earth and its atmosphere to geologists, shipping lines, and others, although the best stuff is reserved for the military. Weather satellites are providing three-dimensional images of myriad meteorological phenomena from pole to pole.

In the not-too-distant future, there are even more spectacular developments. The processing of materials in space, where there is little gravitational force, promises cheaper, purer, and more-exotic pharmaceuticals. The first astronaut sent into space aboard the Space Shuttle by a private firm (McDonnell Douglas) monitored the manufacture of a secret substance for Johnson & Johnson—a substance that reportedly can be produced 500 times faster in the microgravity of space than on Earth. And John Deere, the farm-equipment maker, has performed metallurgical research in space that may lead to the manufacture of better and cheaper alloys on Earth.

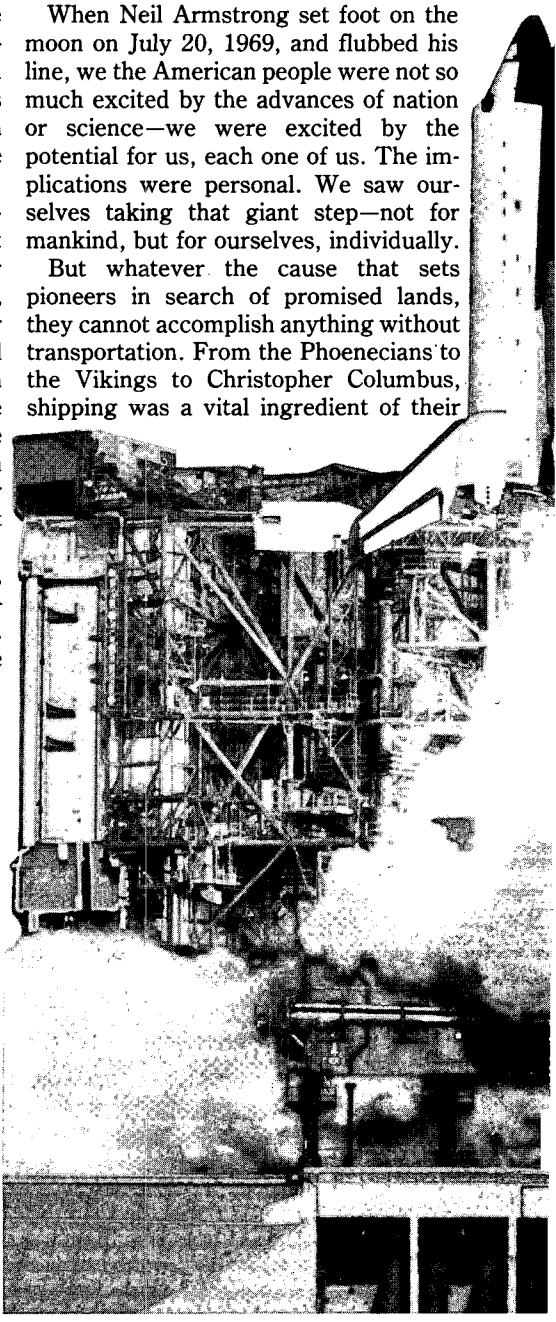
Space, too, provides the ideal waste-disposal site—intensely hot suns, giant incinerators in the heavens above. Our own sun provides a source of energy, bounced to Earth from orbiting solar plants, that could someday make fossil and nuclear fuels obsolete. Conditions in space could also provide help for people with medical problems that cannot be treated effectively on Earth. Even asteroid mining is foreseen. And only time will reveal wonders that are as yet unimagined.

There is another way to look at space, a romantic one. A generation ago, children played at cowboys and Indians. Television and film were filled with the Old West, reflecting a longing affection for the frontier that almost seems programmed into Americans' chromosomes. But now there is the *Star Trek* generation. Cowboys are out, Han Solo, Luke Skywalker, and E.T. are in.

Space has become a symbol of freedom and adventure for the generation that broke all TV-viewing records one summer day in 1969, when the space vessel *Eagle* landed on the moon. I remember that day much better than the usual "Do you remember what you were doing when?" day, the day that President John F. Kennedy was shot. Indeed, Kennedy may one day be remembered mainly as the president who rose to the Soviets' Sputnik challenge, sent Americans into space, and thus inaugurated a new era of exploration.

When Neil Armstrong set foot on the moon on July 20, 1969, and flubbed his line, we the American people were not so much excited by the advances of nation or science—we were excited by the potential for us, each one of us. The implications were personal. We saw ourselves taking that giant step—not for mankind, but for ourselves, individually.

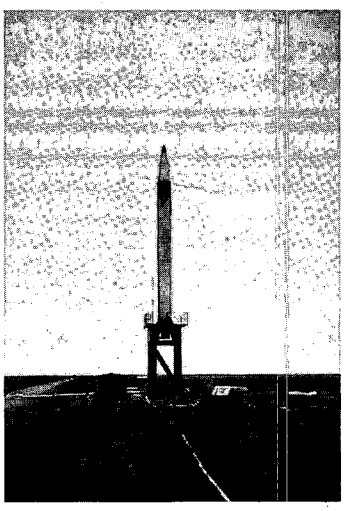
But whatever the cause that sets pioneers in search of promised lands, they cannot accomplish anything without transportation. From the Phoenecians to the Vikings to Christopher Columbus, shipping was a vital ingredient of their



Photograph courtesy of NASA

There are at least two ways to think about space. From one perspective, space is a commercial frontier, a place where generations of entrepreneurs will build businesses and fortunes, in communications, manufacturing, mining—even tourism.

Already, there is a successful and rapidly growing communications-satellite business, providing telecommunications at the speed of light all over the world. Gold prices, telephone calls, and reruns of *I Love Lucy* are bouncing around the geosynchronous orbit, 22,300 miles overhead, at this very instant.



Research assistance for this article was provided by Eric Marti.

varied successes. Hannibal conquered Rome with elephants. The Arabs beat all comers with camels. The Spanish took the Americas with ships and horses. In the United States, the railroad joined the East to the West. The automobile followed, reshaping the continent; then the airplane, reshaping the globe.

I belabor the obvious for a reason: transportation is the key to space. Nothing of historical importance ever happens until people get there. And nothing really important happens until people can transport more than national flags. Transportation links the practical side of space exploration with the romantic dreams.

The history of space transportation is not a long one. The first US rockets were launched into space by the Defense Department in the 1950s, using technology derived from military missiles. The military's immediate objective was to launch "spy" satellites: essentially, a satellite equipped with a camera and transmitter was put atop a big, unarmed missile and fired into space. The satellite, high enough to escape Earth's gravity, coasted into orbit. The missile itself, the "launch vehicle," fell away during the spaceward flight (in "stages," or segments) and disintegrated during its descent or dropped into the ocean, broke up, and sank. Because such a rocket can be used only once, it is called an "expendable launch vehicle," or ELV.

NASA was created by Congress in 1958 to research and develop space technology for peaceful purposes. It joined the military in producing ELVs of several different designs. These vehicles differ among one another primarily in size and power—that is, in how heavy a payload the rocket can boost how far into space. Observational satellites, which relay pictures of the planet and its atmosphere back to Earth, are launched to low earth orbit (LEO), roughly 100 to 200 miles above Earth. Communications satellites—the "birds" that relay phone calls, TV signals, and a variety of other electronic stuff—are deposited in geostationary, or geosynchronous, orbit (GEO), 22,300 miles above Earth. In that orbit, satellites move synchronously with Earth, so that they appear from the ground to be fixed in the sky.

By the mid-1960s, the government's rockets had proven themselves reliable, paving the way for commercial uses of the ELVs, and the first commercial communications satellites were spun into orbit—aboard NASA rockets. Space entrepreneurs were a phenomenon of the future. Even had dreamers perceived the potential for a launch business, though, they would have run into a massive wall of "national security" concerns. During this early period of space-flight development and the Cold War environment in which it occurred, much of the launch technology now commonly available was highly restricted.

When NASA had completed its first major mission in 1969—beating the Russians in sending a human to the moon—it turned to its next challenge: the development of a manned "space truck," a fully reusable spaceship that could ferry people and cargo between Earth and space. Like the cost of an airplane, the shuttle's cost could be spread over a great number of users, making the journey to outer space economically feasible. The expensive, disposable ELVs—the original workhorse rockets—would be replaced with an economical alternative, and the high frontier would at last be opened to development. So the vision went.

The reality was that NASA's Space Shuttle, finally operational in 1981, turned out to cost three times more to develop than originally projected. Likewise, its cost of operation keeps escalating. Yet NASA determinedly promotes the Shuttle as a low-cost space vehicle, setting a low price for commercial users and making up the difference out of the taxpayers' kitty.

Meanwhile, in 1983 the Reagan administration directed NASA and the military to turn over their expendable launch vehicles—primarily NASA's Delta and Atlas launchers and the Air Force's Titan rocket—to private operators. So major aerospace corporations are now poised to compete with the Shuttle in getting satellites and such into space. It's a situation that makes NASA very testy.

Joining NASA and the private ELV operators in the space-transportation scene is a third element: the entrepreneurs. They see a growing market for launch services and, typically, think they can do it for less than either NASA's Shuttle or the privatized ELVs.

Intended as a simple "space truck," NASA's Space Shuttle emerged from the political battle over its design an overly complex paramilitary mobile space home. Entrepreneur Gary Hudson (shown)—designer of the unsuccessful *Percheron* rocket (far left), an early attempt at a private launch vehicle—says his *Phoenix* (line drawing) will dramatically reduce the cost of space transportation.

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It was just two years ago that the barrier to a free-enterprise launch industry appeared to have finally been breached. On September 9, 1982, Space Services, Inc. (SSI), a Houston-based firm headed by Texas real-estate millionaire David Hannah and former astronaut Donald Slayton, launched its $2.5-million *Conestoga I* rocket from Matagorda Island, off the Texas coast, 196 miles into the sky. Only little more than a year before, Hannah's group (Slayton was not yet part of it) had seen $1.5 million and months of development work go up in smoke when their *Percheron* rocket blew up on the Matagorda pad during a launch attempt.

The *Conestoga I* was actually a surplus NASA "sounding," or research, rocket incapable of delivering a commercial payload into orbit. But its successful launch was funded and carried out from start to finish by a private company. Among entrepreneurs, enthusiasm ran high: the big money would now come their way,

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because at last investors had seen that a private company could do what till then only government had done. But investors didn't reach for their checkbooks.

Even for SSI, the launch firm that some observers consider the most likely to succeed, disappointment was in store. Following its *Conestoga I* launch in 1982, the firm started developing what would be its operational rocket, the *Conestoga II*, and hoped to sign up customers. Space Vector, a small California aerospace firm that executed the first launch under contract to SSI, was hired to work on development of *Conestoga II*.

By the beginning of 1984, SSI decided to no longer fund work on the project, and Space Vector struck out to develop its own commercial rocket, the LEO 3. Two years after the *Conestoga I* launch, Hannah and company are still seeking their first customer, and they've hired another firm, Space Data, to develop the *Conestoga II*. They're also interested in acquiring rights to market NASA's Scout, a sounding rocket that can deliver small payloads to low earth orbit.

Another high point for entrepreneurs came in August 1984, when Starstruck, Inc., launched its sounding rocket, the *Dolphin*, from the Pacific Ocean, off the Southern California coast. It was the young firm's fourth try—and first success—at launching the *Dolphin*.

But that up was immediately followed by a down. Just a few weeks after the August 3 *Dolphin* launch, Starstruck president Michael Scott—who in 1982 had left his position as chairman and chief executive officer at Apple Computer to head Starstruck—laid off nearly all of Starstruck's 50 employees. The apparent austerity move touched off a reorganization of Starstruck's management; the firm's board of directors was reconstituted, and Starstruck cofounder Tucker Thompson replaced Scott as president. Thompson put together a skeletal staff to keep operations going, and the firm plans to continue developing its operational rocket, the *Constellation*.

Gary Hudson's career, too, resembles something of a roller-coaster ride. Hudson got his chance to realize a long-time dream when, with David Hannah's backing, he designed the *Percheron* rocket. After the *Percheron* met its explosive fate in July 1981, Hudson and Hannah's partnership ended. But Hudson formed Pacific American Launch Systems, which is now developing his new dream vehicle, the *Phoenix*.

Other private launch initiatives include Len Cormier's Third Millenium. Cormier envisions a "Space Van," a Shuttle-like manned spacecraft launched in midair from atop a jumbo jet. He is reportedly trying to set up a public stock offering to get funding for the project, but as yet no stock has been put on the block.

Robert Truax's Truax Engineering, meanwhile, has plans to develop two very large and powerful launch vehicles, the *Excalibur* and *Sea Dragon* rockets. But to publicize his company's efforts in order to attract investors, Truax is pursuing his Project Private Enterprise—a plan to launch a person into a brief suborbital flight aboard a small rocket. He has constructed most of the rocket and conducted several engine test firings for the press. According to Tom Brosz, the editor of *Commercial Space Report*, Truax needs about another $1 million "to polish off the project."

Space entrepreneurs must, at each step, ask themselves, How can I get the best results in the cheapest way? NASA officials don't ask that question — they don't have to.

And there's OTRAG, a West German firm that for several years appeared to be gathering momentum in developing a rocket, from a base of operations in Libya. OTRAG has ended the Libyan connection but is reportedly continuing with its plans to develop a commercial rocket.

One of the revealing features of these private launch initiatives is that they do not share a single approach to space transportation. Some, like Space Services with its *Conestoga*, or Space Vector with its LEO 3, aim to develop a more or less conventional expendable rocket. Others—Starstruck, for example—are adding unconventional twists to otherwise conventional rocket designs.

Starstruck's *Dolphin* uses a hybrid engine that incorporates a liquid oxydizer and a solid fuel, a revival of technology that the Air Force developed and then abandoned. The hybrid engine is said to offer certain performance advantages over an all-solid engine (like that of SSI's *Conestoga II*, for example) and greater safety than a liquid-fuel system such as the Titan's. The *Dolphin*, appropriate to its name, is launched from *in* the sea, rather than from a launch pad on land. Starstruck not only is spared the expense of building launch pads but also will have great flexibility in choosing a launch site. In addition, Starstruck's idea is to develop modular rocket units that can be put together in various numbers to create more-powerful launchers.

Hudson's *Phoenix*, too, is a quite different approach to designing a launch vehicle. The way to radically bring down launch costs, says Hudson, is to create a reusable vehicle. If a rocket is used only once, the price charged—by a private firm, anyway—must cover the vehicle's full production costs as well as development and operating costs. But if a single vehicle gets used over and over again, each user pays only a portion of its production cost. The more users, the lower the cost to each user, all other things being equal. Hudson is placing his bet on a reusable rocket.

Unlike Len Cormier's Space Van (and NASA's Shuttle), Hudson's *Phoenix* is not a winged vehicle—it is a ballistic, or missile-like, vehicle. This design, says Hudson, results in much less stress and heat build-up, especially during reentry into Earth's atmosphere. Hudson's explanation of his design criteria is lucid, and his logic seems quite solid. Yet major investors don't want any part of it. Why they don't requires a lot of digging into the way NASA goes about its business.

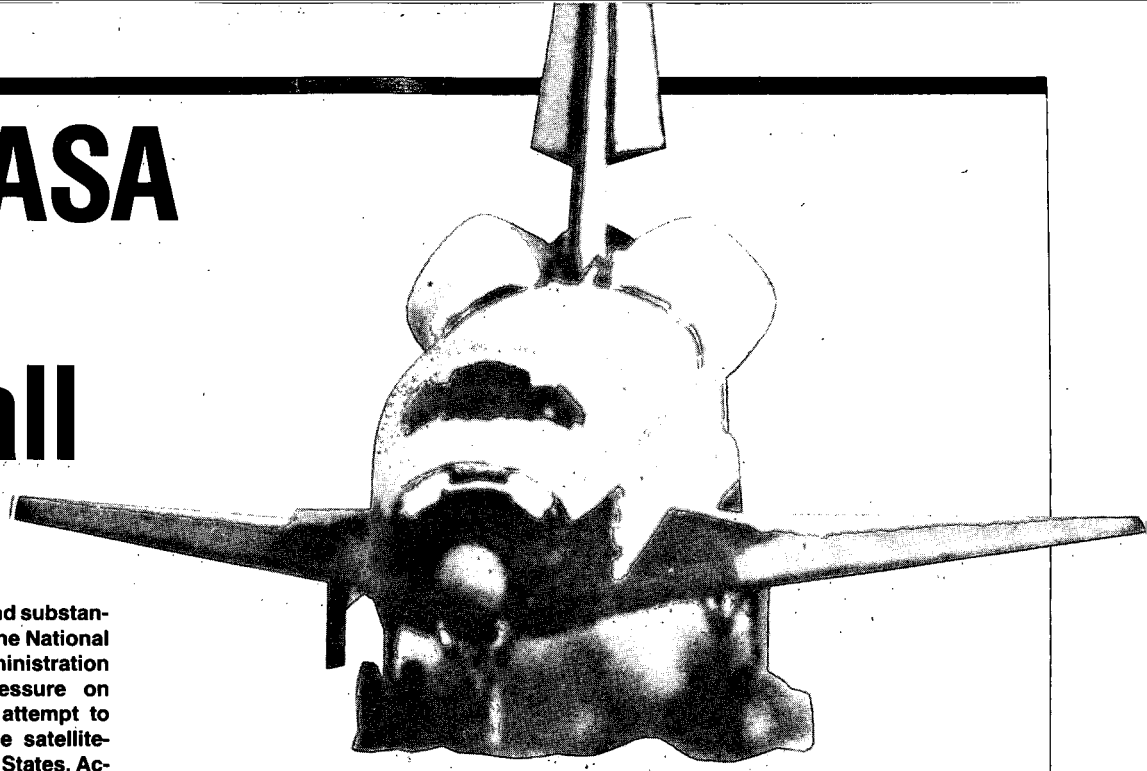
Mention "Shuttle pricing" to a space entrepreneur, and he's likely to turn purple. It's one of the subtle ways NASA sits athwart the private road to space, and it's probably the most important.

Ever since the Space Shuttle's much-applauded maiden flight in the spring of 1981, it's been ferrying things into orbit for private firms (and, dramatically, fixing or fetching some). NASA charges users of the Shuttle, of course, just as users have been paying for launches via government-operated ELVs. But NASA *undercharges* commercial users, according to outsiders—pricing launches at half their actual cost and perhaps even at a quarter of their cost.

Phillip Salin, a cofounder of the firm Starstruck, is an outsider who has looked closely at NASA's Shuttle pricing. In February 1984, he was invited by Rep. Harold Volkmer (D-Mo.), head of the House Subcommittee on Space Science and Applications, to testify on the economics of Shuttle pricing.

Salin, who has a background in eco-

How NASA Plays Hardball



A REASON investigation has found substantial confirmation of claims that the National Aeronautics and Space Administration exerted behind-the-scenes pressure on government contractors in an attempt to block development of a private satellite-launching industry in the United States. According to sources close to the US aerospace industry, high-level executives at the Martin Marietta Corporation and at General Dynamics were warned by a NASA official in 1983 that if they pursued plans to compete with NASA's Space Shuttle, their future as NASA contractors would be jeopardized.

Several sources close to the incidents identified Maj. Gen. James Abrahamson, who was the head of the Space Shuttle program at the time, as a NASA official who applied pressure to government contractors. Abrahamson, who left NASA in early 1984 and now heads the Pentagon's Strategic Defense Initiative, would not make himself available for comment on the information obtained by REASON.

REASON encountered stories about NASA pressure tactics in the course of checking facts for the accompanying article on space entrepreneurs. These entrepreneurs' efforts to develop new launch vehicles do not pose an immediate threat to NASA's monopoly on US space transportation.

But in 1983 the Reagan administration ordered NASA and the military to turn over their expendable launch vehicles (ELVs) to private operators. It is competition from these that NASA evidently fears and, according to reports circulating among space-industry observers, was trying to forestall.

In an effort to determine whether there is any substance to these reports, REASON spoke to a number of individuals, including several well-placed government officials. None of these sources are willing to be identified because of the confidentiality of their information and because of fear of reprisal from NASA. As one source put it, expressing a universal assessment, "I have to get along with NASA in order to continue to do what I'm doing."

REASON learned from several sources that the Martin Marietta Corporation is one of the potential competitors pressured by NASA. The company has acquired exclusive commercial rights to the Titan ELV, which it had produced for the Air Force under contract.

In the spring of 1983, Martin Marietta was preparing to bid on launching two satellites for Intelsat, the international telecommunications consortium. NASA was also bidding the Shuttle for this launch, and a NASA official reportedly told Martin Marietta that if the company pursued the Intelsat launch it would be locked out of future NASA contracts.

Martin Marietta currently has a half-billion-dollar contract with the agency to manufacture the Space Shuttle's external tank. And it is one of the major aerospace corporations bidding on participation in NASA's projected $8-billion space station program.

When REASON asked Caleb B. Hurtt, president of Martin Marietta Aerospace, to comment on the information it had obtained, Hurtt denied that he or any other Martin Marietta executive had been pressured against commercialization of the Titan vehicle. Yet REASON's sources gained their information directly from Martin Marietta executives.

As REASON pursued this investigation, it also learned that General Dynamics was under pressure from NASA. In the spring of 1983 General Dynamics formed a division to market the Atlas ELV as a commercial launch vehicle.

In mid-1983, REASON was told, the company's vice-president for space programs, William Rector, was warned by a high-level NASA official that General Dynamics' contracts with the agency would be reopened to bidding if the firm did not drop its plans to compete with the Shuttle. Under a NASA contract worth $500 million, General Dynamics currently produces an expendable upper-stage booster for the Shuttle and is extensively involved in NASA's space station project.

A General Dynamics spokesman told REASON that Rector was "unaware" of any such pressure by NASA. REASON had confirmed the incident with a source who learned of it directly from a General Dynamics executive. Telephone calls to Rector were routed to the firm's public affairs office, and Rector did not respond to a telegram offering him an opportunity to comment on this matter.

It is not at all clear that any attempts by NASA to block the emergence of a private launch industry in this way were successful. General Dynamics signed up its first customer for an Atlas launch in the summer of 1984. And Martin Marietta did submit a bid on the Intelsat launch but lost to Arianespace, the partially subsidized European launch service.

Martin Marietta president Caleb Hurtt told REASON that the firm has not pursued the commercialization of the Titan any further because "the current structure of the international market" makes it unprofitable. Space industry analysts note that the major factor in the launch market is NASA's cut-rate, taxpayer-subsidized Shuttle launch price (see accompanying article).

REASON has learned that subsidized Shuttle pricing was the subject of a critical letter to the White House written by Oliver Boileau, president of General Dynamics, in 1983. The letter was part of the firm's contribution to a White House task force on space commercialization. In the letter, according to REASON sources, Boileau criticized the policy of subsidized Shuttle pricing and emphasized the importance of an expendable launch vehicle (ELV) capability in addition to the government's Shuttle.

It is probably the case that Shuttle pricing policy has more power to affect private operators than any pressure by NASA officials. Both show NASA's determination to keep its hold on US space transportation.

— The Editors

nomics, spent two weeks tracking down financial information about the Shuttle. His job was not easy: there are no balance sheets for the Shuttle, it being a commercial venture of an agency that is manned by scientists instead of business people. And to judge from what Salin discovered, it is possible that had standard accounting practices been applied to Shuttle pricing policies, space development might have taken a quite different course in the last few years.

On February 28, 1984, Salin walked into the Rayburn Office Building of the US House. Four congressmen and 100-odd interested parties in the audience were there to hear his testimony. Subcommittee chair Harold Volkmer ran the show. Salin was nervous, because even he was surprised at the numbers he had uncovered in his marathon "audit" of NASA.

According to the space agency's own projections of costs, budgets, and an expected 53 launches from October 1985 to October 1988, Salin declared, the average cost per Shuttle launch during those three years will be approximately $250 million. That figure, he noted, includes apportioned ongoing costs for maintaining, operating, and improving the Shuttle.

The $250-million-per-launch estimate does *not* include some *$20 billion* in "sunk costs" for the Shuttle: $10 billion on R&D, $3 billion to construct orbiters, $2 billion to construct facilities, and $5 billion to conduct the first eight launches. A private company would somehow have to cover these costs, but Salin didn't add them in, he says, because of the difficulty in comparing government R&D mandated by "national interest" considerations and a private enterprise's R&D.

Even excluding that $20 billion, Salin noted in his testimony, NASA's proposed pricing policy is not based on full-cost recovery, on average annual cost recovery, on average per-launch cost recovery, or on any other methodology comparable to the way a business firm would have to set charges. Instead, NASA's pricing policy for the Shuttle is based on a cost concept of its own devising, which it calls "out-of-pocket costs." Significantly, Salin charged, the taxpayers end up paying at least half of the actual costs of sending satellites into orbit for profitable corporations such as RCA and AT&T and for various foreign governments.

Salin's testimony put NASA in a tizzy. Within days the agency had circulated a memo to every remotely interested party in Washington, attempting to rebut his analysis. The memo, dated March 7, 1984, charged that "Mr. Salin had a basic misunderstanding of both the Shuttle cost structure and the principles underlying the pricing policies for commercial and foreign customers." The six-page attack on Salin's analysis ended with the assertion that "it is the commercial and foreign customer who is subsidizing the cost of Government launches and not the opposite."

That the document's author did not sign the memo has probably spared the unknown bureaucrat much embarrassment. Only five months later, NASA chief James Beggs testified before a congressional subcommittee that each Shuttle launch actually costs $150 million to $200 million. NASA was apparently not so misunderstood by Salin as the agency had charged.

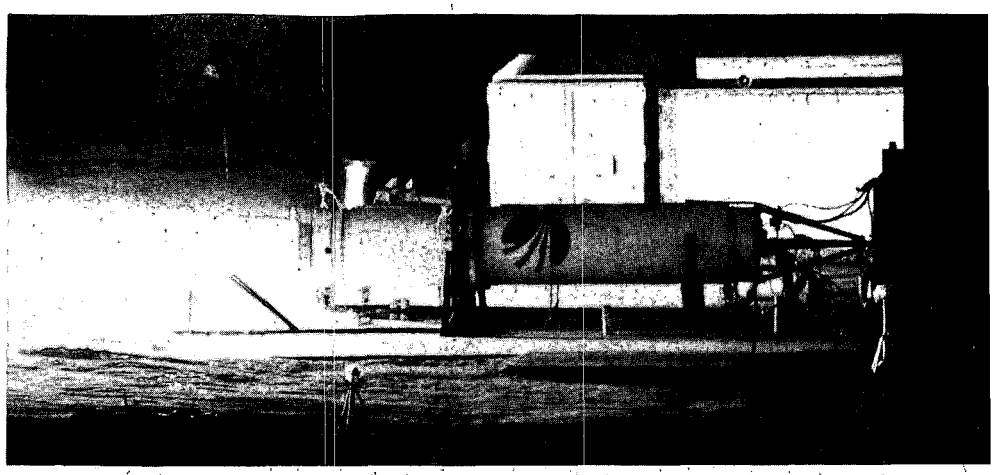
Yet three months after Beggs testified on Shuttle costs, when the head of NASA's Office for Commercial Programs, Isaac T. Gillam, was interviewed for this article, he called Salin's cost estimates "preposterous." Gillam admits that Salin took pains to get all available cost data from NASA, but he contends that Salin's analysis was seriously flawed—essentially because Salin included Shuttle expenses that shouldn't, by NASA's lights, be counted as costs of a commercial launch.

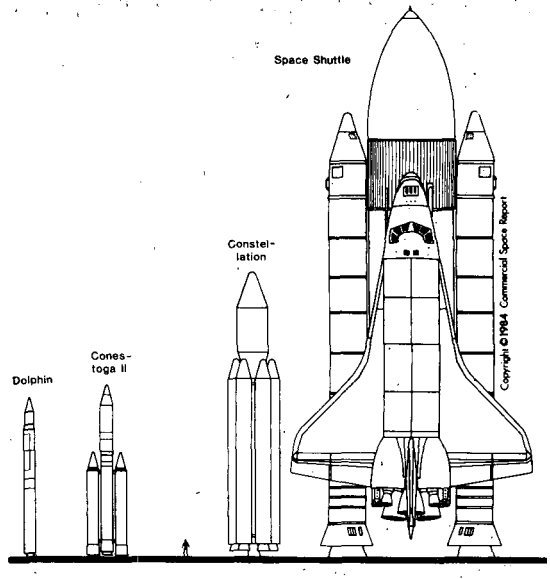
What is at stake is evident from a quick review of Shuttle pricing (all in 1982 dollars). NASA currently charges only $35 million to take a full cargo bay load into low earth orbit (cargo that doesn't take up the whole bay is prorated). In late 1985 the charge is to go up to $71 million. But from October 1988 on, President Reagan has told NASA, it must charge commercial Shuttle users a full-cost-recovery price.

So NASA has analyzed its costs and projected business and submitted to the White House a post-1988 pricing proposal. NASA's "full cost recovery" price: $87 million! It's no wonder that the agency has been so eager to dismiss Salin's cost figures.

For his part, Salin concedes that some of NASA's criticisms may be valid. But he doesn't see how the average cost could be gotten below $200 million per launch. And that leaves a huge tab for taxpayers—and gives NASA a tremendous leg up on the potential competition in the space transportation business.

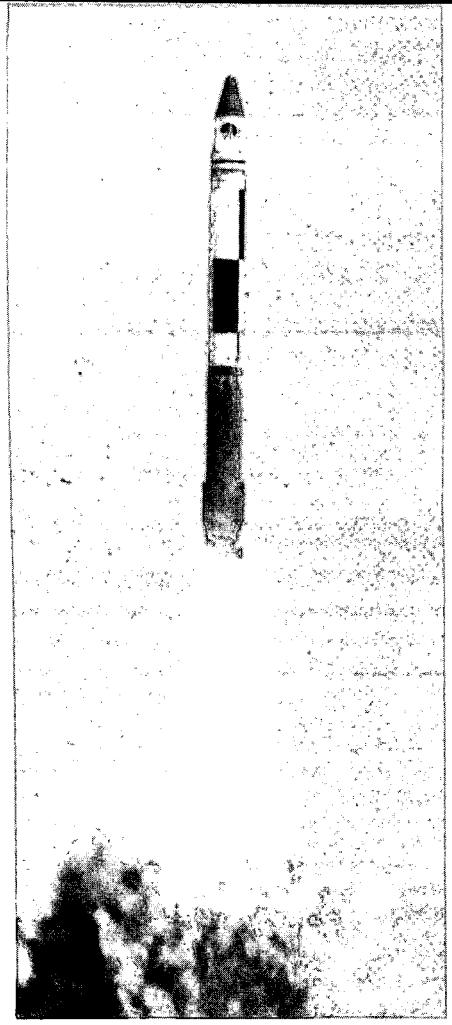
Against the highly subsidized Shuttle, then, private ELV operators cannot compete on price. Without its huge subsidies, the Shuttle would be a hands-down loser. But since taxpayers pick up somewhere between half and three-quarters of the actual *cost* of a commercial Shuttle launch, the Shuttle beats ELVs in *price* by a significant margin.





During its development, Starstruck's *Dolphin* rocket underwent extensive testing of the vehicle's engine (above). The *Dolphin* is Starstruck's sounding (or research) rocket, out of which the firm will develop its commercial vehicle, the *Constellation*. As with Space Services' smaller *Conestoga II* rocket (see illustration), the *Constellation*'s power will be adjusted by the number of engines clustered around the vehicle.

Photographs courtesy of Starstruck, Inc.



Starstruck's *Dolphin* rocket (left) was successfully launched from the Pacific Ocean in August. Such private launch vehicles, says Starstruck cofounder Phil Salin (above), will provide the key to developing space: cheap transportation.

And, figures the astute venture capitalist, yet-to-be-proven alternatives couldn't compete either. And so investment funds for alternative vehicles remain scarce. That is precisely the problem that smacks entrepreneurs like Gary Hudson in the face. The Shuttle's artificially low price is freezing out the competition.

Of course, NASA has a benign view of its pricing policy. As Chris Kraft, former director of NASA's Johnson Space Center in Houston, told an *Esquire* reporter recently, "Until you capture the market, you've *got* to subsidize it." Eventually, with lots of users over which to spread its fixed costs, taxpayers won't have to subsidize Shuttle users. The nation's space agency will thus have made good on its promise to provide low-cost space transportation.

At best, that thinking is desperate. In the mid-1970s, NASA projected nearly 600 launches in the first 12 years of Shuttle operation. That figure was later lowered to less than 500, and in 1982 the projection was again lowered, to *less than 250.* In 1984, the Shuttle's fourth year of operation, it made only 5 of 10 planned launches, and observers say that NASA's goal of a launch a month in 1985 looks doubtful.

Moreover, suppose the present average cost per launch is, as Phil Salin found out and NASA now concedes, something between $150 million and $250 million. Even the most elastic imagination is tested by NASA's supposition that it can increase its volume, price, and operational efficiency enough to recover its costs, especially if the agency's record on cost overruns holds into the future. In 1982, the General Accounting Office, the federal government's internal auditor, found that NASA's projected average Shuttle launch cost increased 73 percent between 1976 and 1980.

Consider, too, that for a single launch, the fuel, external tank, and engines that are expended cost $25 million or so. And NASA employs 12,000 to 14,000 people to carry out a Shuttle launch from start to finish. How much personnel cost to attribute to the cost of a single Shuttle launch is not easy to calculate, but the magnitude at issue is clear.

Officials at NASA say that as they learn more with each Shuttle mission, they will rapidly achieve efficiencies. But NASA's descent on the "learning curve" would have to be precipitous—especially for a government bureaucracy that has little incentive to reduce costs—in order to achieve the kind of reduction it suggests.

For NASA officials, then, getting all the customers they can is their only hope for keeping up the Shuttle's facade as an inexpensive vehicle. And that means keeping competitors at bay—whether with subsidized pricing or by other means.

NASA's machinations to scuttle a private launch industry extend at least as far back as 1975. In January of that year, NASA employee Tenney Johnson sent a memo to his colleague Jerome Patterson about a Boeing proposal to develop the Minuteman 3 missile, a military rocket, as a commercial launch vehicle. Boeing was nearing the end of a production run on the missile and was looking for a way to keep up manufacture.

"Private rocket launchings, unregulated, would interfere with NASA's program, as the agency responsible for the space activities of the United States," Johnson wrote in his memo. But he speculated that the agency "would have the authority to regulate private launchings, not only to insure safety *but to further the goals of the National Aeronautics and Space Administration*" (emphasis added).

Johnson acknowledged that "since NASA is not a regulatory agency, it could not promulgate rules prohibiting private launchings." Other means came to mind. "NASA could oppose an application for a radio license for such a rocket before the FCC [Federal Communications Commission] or, in cooperation with the Administrator of the FAA [Federal Aviation Administration], formulate a policy which could be effected through the regulatory authority of the FAA." The memo pointedly noted that "no one would wish to project a rocket into outer space if he could not communicate with it through the use of radio. In order to do this, he must have a license.... Thus, the withholding of a license would effectively prevent the private launching of rockets."

In the event, NASA did not have to employ such tactics. Boeing's proposal involved a foreign launching site, but that was nixed by the State Department on the grounds that Boeing would be "exporting sensitive technology." The issue of government authority over private launches, meanwhile, remained in limbo until the Reagan administration settled on the Department of Transportation.

Despite its abundant subsidies, however, NASA is still worried about competition from the private sector. That concern was well in the forefront of NASA chief James Beggs's mind when he pegged the Shuttle's per launch cost at $150-$200 million in congressional testimony last July. Beggs had a sticky dilemma for Congress to puzzle over: through cost reductions and price increases, Shuttle operations could be made self-sustaining by 1990, he claimed—*if* the Department of Defense doesn't go elsewhere for its substantial launch services.

In fact, NASA worries a lot about the military's loyalty as a Shuttle patron. The Defense Department isn't as crazy

about the Shuttle as it once was—it complains about the frequent delays and long preparation time, questions aspects of the Shuttle's reliability, and has other, strategic reservations about using the Shuttle for all military missions. Consequently, the Pentagon now urges the importance of an expendable launch vehicle capability, and the Air Force even plans to purchase 10 ELVs over the next several years. "This kind of thing," confides a close observer of the NASA-Pentagon feud over ELVs, "makes NASA go absolutely berserk."

"If it had cost $2 million to send a man across the Atlantic," Phil Salin suggests, "imagine how long it would have taken to explore, settle, and develop America." Salin, a cofounder of Starstruck, uses this thought experiment to drive home a main point: a dramatic reduction in the cost of getting there is the key to developing space for human use. And people at NASA would agree with this axiom as readily as would, say, Gary Hudson. NASA, after all, bet its future on the Space Shuttle, and for more than a decade poured all its resources and energy into the Shuttle, as a low-cost alternative to expendable launch vehicles.

As a government bureaucracy, however, NASA in fact has little if *any* reason to develop cheap space transportation. Though this claim might sound paradoxical at first—isn't it in the agency's interest to get the most out of its budget?—it becomes evident once one understands the specific incentives that NASA officials face.

Consider, first, the fundamental difference between how entrepreneurs are rewarded in the marketplace and how government bureaucrats are rewarded in the public sector. The potential for entrepreneurs' personal gain—for profit—increases as they decrease the costs of their operations. So *minimizing costs* is their fundamental incentive.

Public-sector managers, by contrast, are generally rewarded in accordance with the size and scope of their programs—they stand to gain no profits by cutting costs. So their incentive is to expand existing programs and create new programs—to increase their budget, that is.

At NASA, that incentive historically has led the agency to go all out for manned, rather than unmanned, systems. There is high publicity value in the glamor of astronauts, and this is an important element in an agency's bid for funds from Congress. And manned systems, requiring a far higher degree of reliability than unmanned systems, are more costly, too.

Phil Salin and many others argue that at this stage in our technological development, a *manned* reusable vehicle is a seriously mistaken approach to achieving economical space transportation. The Shuttle may be useful for certain types of advanced research, concedes Salin, but for the business of launching satellites, unmanned rockets—"big dumb boosters," as they are sometimes affectionately called—make the most economic sense right now.

Other entrepreneurs would not agree with Salin on this. Len Cormier of Third Millenium, for instance, is trying to develop a manned, Shuttle-like "Space Van." Salin's response to this: "Let each entrepreneur test his idea in the marketplace—without taxpayer subsidies."

As long as NASA is in the launch business, says one investment banker, there is the impression that "the elephants are dancing and some mice will be crushed."

Reinforcing NASA's incentive to inflate costs are the contractors who do the actual manufacturing on NASA projects. Because their fortunes rise and fall as NASA's programs expand and contract, it is in their interest, too, to promote high-cost approaches to space projects and to continually push new, more-advanced technology.

NASA's costs are also driven up by its need to satisfy politically influential constituencies. This often means making decisions based on criteria other than what is most economically rational. A prime example is the way in which the Shuttle's design had to be modified and remodified to satisfy demands from powerful quarters.

When the Nixon administration wouldn't fund NASA's plans for a manned space station, interests backing the station forced NASA to incorporate aspects of a space station, such as extended habitation in the vehicle, into the Shuttle. This significantly raised the Shuttle's cost beyond that of building a simple space truck. The truck became a *mobile home.*

Then, in order to win the Air Force's support, NASA again modified the design to accommodate larger military payloads and greater maneuverability. These changes led to a redesigned, complex wing and required the use of the infamous, troublesome heat-shield tiles, causing long delays and major cost increases. The Shuttle had become a *paramilitary* mobile home.

Finally, due to cuts in NASA's development funds, the original concept of total reusability had to be abandoned, thereby leading to higher operating costs. Some observers say the idea of a fully reusable vehicle was a questionable one, anyway, based on the premise that somewhat higher development costs would be offset by lower operating costs. But by changing horses midstream, the Shuttle ended up costing much more both to develop and to operate than purely expendable vehicles.

Risk, too, is handled by government bureaucrats in a way that inflates costs. Public-sector managers have Congress looking over their shoulders. They have little to gain if they take a risk and succeed—a cost-cutting breakthrough will not bring them profits. But if they fail, Congress may cancel their program. Understandably, NASA managers have a risk-avoidance mindset.

Ronald Cordes, a former NASA engineer on the Apollo program, has spoken at length on the subject. Faced with a choice between a $50-million system that is 60 percent reliable and $300-million system that is 90 percent reliable, says Cordes, NASA will choose the latter. A private firm, on the other hand, would probably go with the first option—it's simply good business.

Assume that a private firm fails in its first and second launches but succeeds on the third try. In three tries, each with a 60 percent chance of succeeding, the overall probability of success is 93.6 percent—at a total cost of $150 million. NASA's risk-averse strategy, however, has only a 90 percent chance of succeeding, and at twice the cost. But that's the approach NASA will choose, because failure on the first two 60 percent launches would be politically too risky.

So NASA's first concern is not to maximize its overall cost-effectiveness but to avoid politically risky errors that could lead Congress to cut its budget. And for

NASA's contractors, too, the reflex to avoid political risks is second nature.

"This is caused not simply by individual decisions to reduce risks, regardless of cost," points out Eric Drexler of the Massachusetts Institute of Technology. "This pattern is ingrained into the structure of government-funded development organizations, into the way they operate." And Drexler drives home the point: "There need be no money-wasting devils to result in a devilish waste of money."

The upshot is that NASA's approach to space transportation is fundamentally inappropriate to the goal of getting into space cheaply. In contrast to the multiple, trial-and-error approaches of profit-seeking entrepreneurs, the government's space program is run as a centralized monopoly. After exhaustively studying the options, and after taking into account all the political aspects of the program, a committee of bureaucrats—scientists and technicians, yes; but bureaucrats nonetheless—selects what it sees as the single best approach to a problem, then massively funds it until it is made to work. Obviously, this brute-force method is likely to produce a higher-cost design. But in addition, it is exactly contrary to how innovative breakthroughs come about.

A comparison of the US computer and telephone industries provides an illuminating case in point. The entrepreneurial, decentralized computer industry had seen a tremendous rate of innovation resulting in dramatic cost decreases, while for decades the phone industry lay in a technological coma. It was not until the phone industry was deregulated—opening the way for a multitude of entrepreneurs to test their ideas—that real innovation returned to this area. The lesson is clear: it is open competition, not centralized monopolization, that fosters cost-reducing innovation.

It is not NASA that will prove or disprove the feasibility of Starstruck's hybrid-engine, sea-launched *Constellation* rockets; or Gary Hudson's reusable *Phoenix*; or Len Cormier's manned Space Van; or Space Vector's and Space Services's quick and simple rockets. Each of these approaches is based on different notions of what will work best and of what users will need.

Each approach must be tested in the market—first in the market for investment capital, then, perhaps, in the market for customers. So the entrepreneurs behind these efforts must, at each step, ask themselves, How can I get the best results in the cheapest way? NASA officials, on the other hand, don't ask that question—they don't have to.

Money. When you talk with these entrepreneurs, you soon discover that they're not getting it—at least not enough to carry their ideas to a marketable point.

At first, the situation looks familiar enough—part of what one investment expert who follows the space industry calls "the continuing dialectic between entrepreneur and investor." The entrepreneur, brimming with enthusiasm, tries to convince the investor of some profitable new idea. And the investor clings to his skepticism, looking hard for ways he might get burned. But in the field of space transportation, the entrepreneur-investor struggle is complicated by the looming presence of NASA—a huge, monopolistic government bureaucracy that provides the only model of space transportation that investors can look to.

NASA may be able to throw its weight around in the US space industry, but it will not similarly be able to lean on the Japanese.

Gary Hudson, 34 years old and with a life-long passion for space transport, has tried to tap many investors' pockets to fund his *Phoenix* rocket. It's still only an idea on paper. But Hudson is convinced that the *Phoenix* will dramatically reduce launching costs—to about $66 per pound of payload delivered into low earth orbit, assuming that the vehicle sees 100 launches. *$66!* The highly subsidized price of a Shuttle launch still costs a user about $1,300 per pound delivered into low earth orbit and about $4,600 a pound aboard a Delta rocket.

"Fantastic," remarked James Connor when the $66 figure was reported to him. Connor, of the investment firm First Boston Corp. in Dallas, is considered an astute analyst of the private space industry and its investment opportunities. He does not dismiss out of hand the remarkable claims of space transportation entrepreneurs like Hudson, but he wonders where such huge cost reductions are to come. The entrepreneurs' plans, notes, Connor, do not involve the application of some radically new technology that in one fell swoop will bring down the costs of space transportation several times over, as the silicon chip did for the price of computers.

Hudson has answers. Because the vehicle is reusable, with nothing but the fuel expended on a mission, the vehicle's $25-million production cost could be spread among many users, just as airlines spread the multimillion-dollar cost of a jetliner over many users, not just a single planeful.

And the operation of a launch vehicle, says Hudson, doesn't require *nearly* the number of people that NASA uses—some 1,200 for a single Delta launch. As evidence that fewer people are needed, he cites the military, which uses a crew about one-tenth the size of NASA's for a similar launch. Hudson expects *Phoenix* launches to be handled by 5-person crews. Moreover, he says, operational overhead can be cut even further by simplifying launch sites and control procedures (NASA's are extremely elaborate).

Developing his *Phoenix* to a commercial stage, Hudson estimates, will cost between $100 million and $200 million. But he can't get that kind of backing.

Gregg Fawkes, who heads the Space Enterprise Project of the US Chamber of Commerce's National Chamber Foundation, has polled investors about going in on start-up space transportation ventures. What he's found is universal reluctance. "The assumption among investors," says Fawkes, "is that the development costs would be *at least* $200 million and probably more like $500 million."

Why can't Hudson and others convince investors that development costs need not be so high? Here the specter of NASA looms large.

Say an entrepreneur has worked out a concept on paper in great detail—technical, financing, and marketing aspects—and meets with a prospective investor. The investor may be impressed by the idea but has no expertise about the subject, so he gets advice from a "technical evaluator." Wanting someone who is knowledgeable about rockets and such, the investor goes to a retired aerospace-industry or NASA engineer—someone, that is, who has always operated within the environment of government bureaucracy in which cost is of little or no

concern.

"There *are* no experts on this issue," says Starstruck cofounder Phil Salin, "because no one can answer the question the marketplace is asking: How much does it cost to develop a commercial launch vehicle? No one has ever done it, so no one really knows." Indeed, the entrepreneurs could be underestimating the development costs that face them: to achieve a quasi-successful test launch of just its prototype rocket, the *Dolphin*, Starstruck entrepreneurs spent four times as much money and three times as long as they had calculated.

Even if the technical evaluator judges the concept technically sound, he is almost certain to give the idea low marks on the feasibility of developing it within the cost limits the entrepreneur is suggesting. Tom Brosz, editor and publisher of *Commercial Space Report*, explains that the evaluator's attitude is, "if this could be done, NASA would have done it already." Adds Gary Hudson: "If the idea was obvious, the entrepreneurial opportunity wouldn't be there—Boeing or somebody would already be doing it."

And to top it off, observes banker James Connor, there is "an unspoken concern about what the government intends to do—in contrast to what official policy might be." The worry, he explains, is "whether the government will take the market for launches by underbidding" private operators, as NASA is doing with subsidized Shuttle pricing.

"The real money will flow to the entrepreneurs," Connor predicts, "when they can show that users will sign contracts for their services. But users are saying, Why should we sign up with these guys when we've already got a pretty good deal from the government?"

If there were a firm policy resolution to end subsidized government launch services, Connor predicts that investors would move into the business "reasonably quickly—there wouldn't be much reason to hesitate any longer." But as long as NASA is in the launch business, there is the impression, as Connor puts it, that "the elephants are dancing and some mice will be crushed."

Yet it's still too early for the mammoth space agency to do a dance of victory. Ultimately, there may be too many mice to trample—especially on foreign shores.

When the Shuttle was nearing operation—it first flew in the spring of 1981—NASA's announced intention was to keep ELVs only as back-ups to the Shuttle and to phase them out altogether by 1986. All looked pretty rosy for NASA, but in 1983 came President Reagan's order to privatize the ELVs. Firms bid on the commercial rights to NASA's Atlas and Delta rockets and to the Air Force's Titan. General Dynamics, maker of the Atlas for NASA, won commercial rights to it, and Martin Marietta got the rights to the Titan, which it had developed for the Air Force. McDonnell Douglas, maker of the Delta for NASA, did not bid on commercializing the rocket, and the marketing rights to it went to Transpace Carriers, Inc.

NASA wanted very much to direct the government office that would oversee the private ELV industry. But Reagan assigned that duty to the Transportation Department, which then created for the purpose an Office of Commercial Space Transportation (OCST). Observers of the politics affecting the ELV industry say that Transportation Secretary Elizabeth Dole wants to help the private launch operators get off the ground and that she is likely to urge Reagan to take a firm stance on full-cost-recovery pricing for the Shuttle when the president makes a decision, early in 1985. That may be all that's needed to get the private ELV industry going—and to loosen up investment funds for launch entrepreneurs.

How President Reagan decides the Shuttle-pricing question will be crucially important to the future of the American launch industry. NASA, of course, will be pushing hard to get Reagan's approval of its own proposal for a full-cost-recovery price: $87 million (in 1982 dollars). However, the agency may not have many allies this time around.

Also studying the pricing issue are the Department of Transportation's OCST, the Office of Management and Budget (OMB), and the Congressional Budget Office (CBO). Their studies, according to informed sources in Washington, are likely to contend that commercial use of the Shuttle costs more than NASA's analysis indicates.

Moreover, Transportation Secretary Dole, in urging true cost-based pricing for the Shuttle, may well present the issue to Reagan from the subsidization angle: why, she might ask, should taxpayers subsidize users such as RCA or AT&T, especially when taxpayers face a massive federal deficit? She may explain that her office doesn't want *subsidies* for private launchers—just a fair shake from government by forcing NASA to charge a true cost-based price. That argument may well appeal to the administration's fiscal conservatives, especially OMB director David Stockman.

Another twist in the situation may also put some heat on NASA. On June 1, 1984, Transpace Carriers, the firm that acquired the marketing rights to NASA's Delta rocket, filed a petition with the US Trade Representative's office to investigate "dumping" by Arianespace, the European government-backed consortium: Arianespace charges American users of its Ariane rocket a lower price than European users, thus undercutting Transpace's own prices. Arianespace responded to the charge by accusing NASA of being the most unfair price cutter of all. That squabble is bound to initiate further investigation of Shuttle pricing.

Still, NASA is a powerful force in Washington politics, with many strong supporters both in Congress and in high places within the Reagan administration itself. In addition, commercial Shuttle users do not, of course, like the prospect of having to pay a full-cost price, and they will likely lobby hard for continued subsidies. So there is a good chance that the NASA position will prevail.

But if a myopic US policy thus continues to block efforts in private space transportation, there are other sources of advance. The Europeans' Arianespace probably will not go very far, because, subsidized by Common Market governments, it has many of the same problems as NASA's Shuttle.

It is the Japanese who could eventually dominate space transportation. They are not known for new technologies, but they don't need them to get into space. The tools are already available, and the Japanese have already begun to develop a launch capability. NASA may be able to throw its weight around in the US space industry, squeezing out private operators and entrepreneurs. It will not similarly be able to lean on the Japanese.

Without question, space will be developed. Also without question, Americans will be involved in some way—whether or not their efforts originate from American soil. In the really long run, space represents more than something American or Japanese—it is the domain of individualists, people with political, cultural, and economic claustrophobia. The bureaucratic barriers are therefore destined to fall. The question now is how soon. A lot of us can't quite give up hope that it will happen in time for us to help shape those vast promised lands above. ◻

Patrick Cox is a free-lance writer. This article is a project of the Reason Foundation Investigative Journalism Fund.

THE GARRISON FILE:

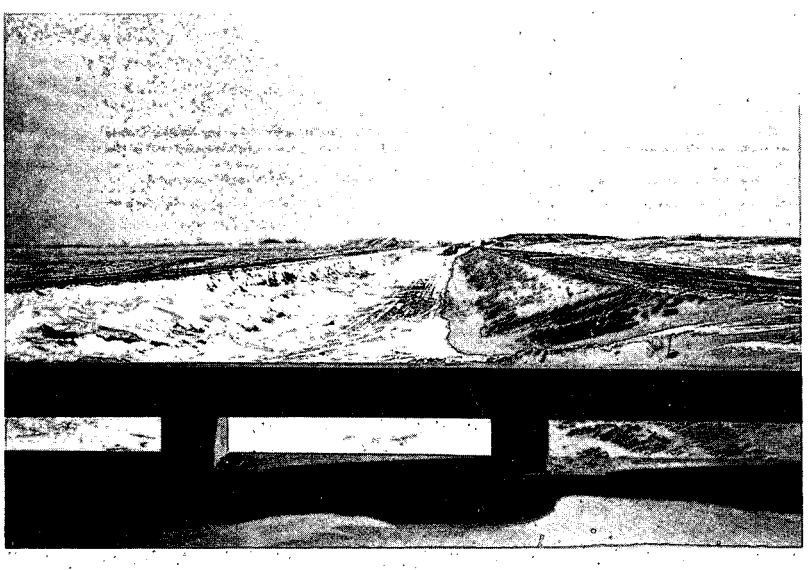
PROFILE OF A PORK BARREL

For environmentalists, it's an ecological disaster. For taxpayers, it's a stupendous boondoggle. But thanks to a handful of special interests, a federal water project in North Dakota defies liquidation.

By Renée Wyman and John Baden

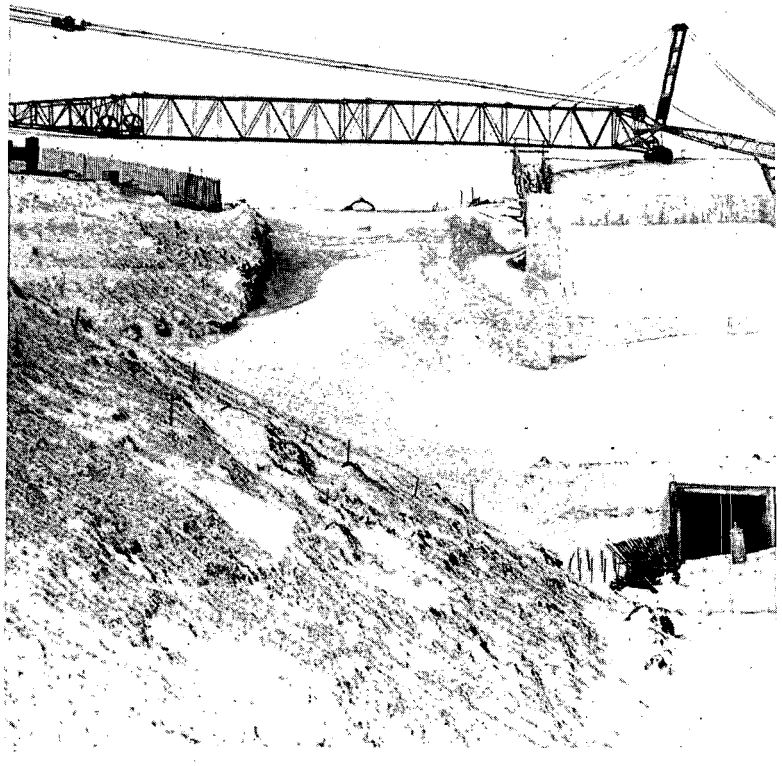
Albert Klain has a problem. He owns a farm in Turtle Lake, North Dakota, a 2,500-acre spread with a seemingly endless horizon where he raises wheat and cattle. The problem is a gigantic 50-foot-wide canal that runs through the best part of his land and leaks onto portions of his property. That's not all. Because of the canal, one of his pastures is totally submerged.

The leaky structure is McClusky Canal—also known, to some environmentalists, as "Dr. Strangelove's Canal." It is part of a federal project designed



The New Rockford Canal is one part of the government's Garrison Diversion Unit, a congressional pork barrel that has been on the drawing boards in one form or another for four decades.

Photographs courtesy of Jamestown Sun



The 33,000-acre Lonetree Reservoir is the heart of the Garrison project, which is supposed to bring irrigation water to six-tenths of one percent of North Dakota's land.

to move irrigation water to North Dakota farms hundreds of miles to the east—farms that actually receive *more* rainfall than Albert Klain's farm. And except for the unintended leakage, Klain will never receive any useful water from the canal that bisects his land.

McClusky Canal by itself would be a big headache, but in fact it's just a small part of the Garrison Diversion Unit, a $1.2-billion congressional pork barrel that has been on the drawing boards in one form or another for four decades. The concept behind Garrison is a complex series of 3,000 miles of canals, drains, pipelines, and reservoirs to carry water from Lake Sakakawea in western North Dakota to 250,000 acres (roughly six-tenths of one percent of the state's land) in the northern and eastern part of the state. Nearly 20 years and $203 million after Garrison's initial funding, however, not one drop of Garrison irrigation water has nourished North Dakota farmland.

Irrigation to make the prairies bloom sounds as American as apple pie and Norman Rockwell. But the truth of the matter is that the Garrison Diversion Unit is a prime example of pork-barrel politics gone mad. It is backed by one of the most durable and formidable political partnerships in the country—elected officials, special-interest groups, and bureaucrats overseeing water-development projects.

But if every cloud has a silver lining, here it is the unusual coalition that has sprung up to oppose Garrison. It includes such diverse groups as the environmentalist National Audubon Society and the fiscal-conservative National Taxpayers Union. Though such a coalition of putative liberals and conservatives may seem odd, it actually makes perfect sense. Both elements, following their own logic, realize that the federal government, far from *protecting* the environment, is the very culprit that threatens to disrupt the ecology of North Dakota and adjacent areas—and do so with billions of taxpayers' dollars.

Moreover, Garrison has awakened many environmentalists to a general feature of government long recognized by fiscal conservatives: government is not tempered by the common sense and economic constraints that a private organization or business would face if it wanted to survive in the economic marketplace.

As Geoffrey Norman recently pointed out in an article in *Esquire* magazine, "Government is not the natural ally of those who would try to save the land and other natural resources. It is, more often, the enemy. No matter what else it might have been guilty of, Exxon, for instance, would never have considered a project that makes as little sense as the Garrison Diversion Unit."

Following years of bitter debate over both its cost and its environmental impacts, Garrison appears to have reached a new threshold: the feisty water project is at this writing in the hands of an appointed commission that is supposed to determine its fate. Maybe the commission will make a difference—but maybe not. If the history of the project is any indication of its likely fate, the Garrison Diversion Unit will stay with us in one form or another.

To understand Garrison, it helps to know something of the state where it would be built. In North Dakota, water resources are either feast or famine. In vast portions of this state, agriculture is known as dryland farming, with wheat and feed grains dominating the economy. But North Dakota also has abundant wetlands. Although it is a little-known fact, North Dakota produces more ducks per year than any other state except Alaska. Wetlands, marshes, and lakes offer prime habitat not only for the plentiful ducks but also for geese and shorebirds. The wetland region is also a supremely valuable and essential stopover point on the Central Flyway migratory route. In many places, these wildlife-laden wetlands exist alongside the dryland farms.

There has been talk of irrigating North Dakota for nearly 100 years. The US Geological Survey first examined the state's water system when it established that the Hudson Bay Divide ran through the state. Surveyors found that on one side of the divide, Missouri River waters flowed south and east to the Mississippi and Gulf of Mexico, while on the other side, the Souris River flowed north to Canada, emptying into the Hudson Bay.

By the 1890s, the survey tried to identify a practical route for diverting Missouri River water across the divide into the Hudson Bay basin, primarily to provide irrigation for territorial homesteaders. By the 1920s, the government had its plan, which included a

diversion dam in eastern Montana and a feeder canal that would send water eastward into North Dakota. Following a decade of agricultural failures and nearly continuous droughts, the project was started and the Army Corps of Engineers completed the Fort Peck Dam in Montana by 1940. North Dakota landowners in the emerging prairie dustbowl renewed their insistence for a plan to divert Missouri water either from Fort Peck or via another dam built for that purpose closer to home.

It was the Fort Peck Dam, plus disastrous flooding along the Missouri in 1942 and 1943, that set the stage for the first incarnation of the Garrison nightmare. In the wake of the floods, two separate bureaucracies—the Corps of Engineers and the Interior Department's Bureau of Reclamation—began comprehensive planning for flood control, irrigation, hydroelectric power, navigation, municipal uses, and recreation. The bureau's "Sloan Plan" and the corps' "Pick Plan" were revised and approved by Congress in a shotgun wedding known as the Pick Sloan Plan of the 1944 Flood Control Act. Dam building and flood control were assigned to the corps, while irrigation and hydroelectric-power development went to the bureau. The government was now fully in the business of subsidizing water development.

For North Dakota, the result of this bureaucratic logrolling was a new dam in 1956—the Garrison Dam. It was primarily designed for flood control, a modest goal compared to what would come later, but its construction opened the door for the Reclamation Bureau's gargantuan follow-up plan to construct canals, pipelines, reservoirs, and drains to divert Missouri River water for irrigation. This enormous irrigation project, the Garrison Diversion Unit, was originally authorized by Congress in 1965 at a projected cost of $207 million (or $650 million in 1983 dollars). If it were completed today, it would cost taxpayers $1.2 billion.

Just what is Garrison supposed to do? The grand scheme behind it is to move hundreds of thousands of acre-feet of water (an acre-foot is the equivalent of one acre of land covered by water one foot deep) from the reservoir behind Garrison Dam through a network of channels including 3,000 miles of canals, pipes, and drains, plus three enormous regulating reservoirs and pumping stations. The goal is to provide irrigation to 250,000 acres of North Dakota farmland.

Behind the Garrison Dam on the Missouri River lies Lake Sakakawea. A pumping station forces water from Sakakawea across a highway, into Audubon Lake (which is ironic, since the National Audubon Society remains one of the chief opponents of this project). Water from Audubon Lake is then released into McClusky Canal, a 74-mile connecting link to yet another body of water, Lonetree Reservoir, that will hold 535,000 acre-feet of water.

From Lonetree, the water will be diverted north to irrigate 116,000 acres or east to irrigate 21,000 acres, "freshen" Devils Lake, and branch off to irrigate another 48,000 acres. Finally, a modest four-mile canal branches out to add water to the James River, from which another 13,500 acres could be irrigated as the James runs its course to the south.

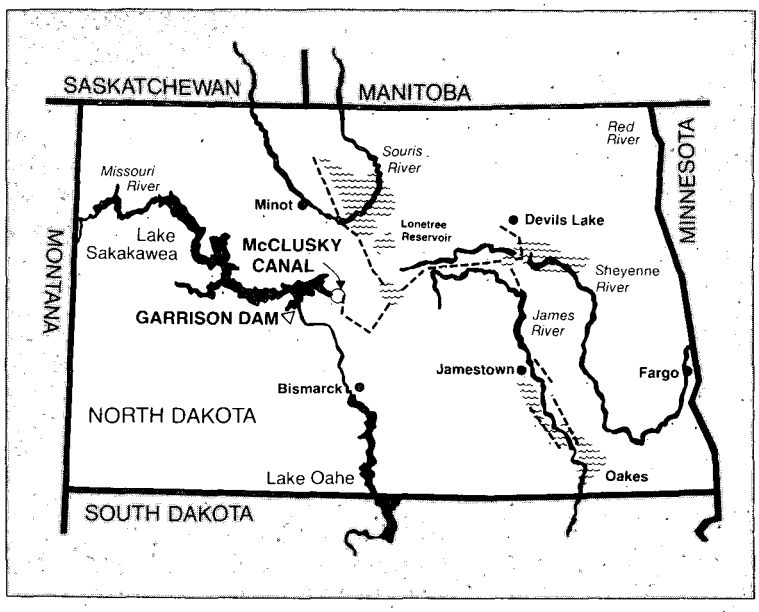
The project is massive—*not* because of the amount of land to be irrigated but because the project itself extends for hundreds of miles. In some places, Garrison is designed to move water more than 250 miles for irrigation purposes.

There's another way it's massive. Garrison Dam alone cost North Dakota more than 350,000 acres of productive lands that were flooded by its construction. That's already far more than the land to be irrigated via the project. And if the entire project is completed, it could gobble up *another* 350,000 acres.

Almost from its inception, opponents have criticized Garrison. Initial and highly optimistic studies done in 1960 by the Bureau of the Budget estimated a benefit-cost ratio for Garrison at a pitiful .76 to 1; in other words, it would produce only 76 cents' worth of benefits for every dollar invested in it. That alone created a reasonable fiscal argument against the project. Thus, Garrison is a potential subsidy of enormous proportions. According to the Audubon Society, each irrigated acre will receive a $3,800 one-time subsidy, with each lucky farm averaging a $700,000 subsidy.

The scope of this transfer is all the more startling when one considers that North Dakota also led the nation in 1983 in per capita participation in the government's Payment-in-Kind (PIK) program, which rewards farmers for *not* growing crops. Potential Garrison irrigators will pay only about five percent

Garrison Diversion Project



Proposed irrigation land ---- Canals

The concept behind Garrison is a complex series of 3,000 miles of canals, drains, pipelines, and reservoirs to carry water from Lake Sakakawea in western North Dakota to 250,000 acres in the northern and eastern part of the state.

of the construction costs over 50 years at subsidized interest rates. And who will pick up the rest of the tab? The country's taxpayers, who will subsidize the project through their taxes and support for more crop surpluses. In addition, electricity customers in the Missouri River Basin will subsidize Garrison by shouldering some of the costs through higher electricity rates.

Much of the money consumed by Garrison has already gone for the purchase of vast tracts of land—but the project currently has two mandates to buy up even more. The first of these is to purchase large amounts of land to construct the array of canals and reservoirs in the project. The Bureau of Reclamation has estimated that in addition to the land consumed by the Garrison Dam, the agency may have to acquire nearly 200,000 acres for other parts of the diversion unit, simply to irrigate 250,000 *other* acres.

The second mandate is to buy land under the 1965 congressional authorization, which required the government to acquire and set aside land to compensate for all fish and wildlife losses resulting from the water project. This process, called "mitigation," is the source of tremendous controversy, since 150,000 *additional* acres have been designated for possible acquisition by the federal government.

In its lawsuit that tried unsuccessfully to block the Garrison project, the National Audubon Society claimed that "even with a mitigation plan, Garrison would *still* result in serious net losses of wildlife and wildlife habitat." The US Fish and Wildlife Service (FWS), an Interior Department agency that devised the mitigation plan, estimated that of the 150,000 designated acres, more than 50,000 acres was productive farmland. FWS also estimated three years ago that it would spend over $80 million for the mitigation plan, primarily for acquiring land. Thus, under the Garrison banner, huge tracts of land—both productive farmland and vital wetlands—have been slated for acquisition at taxpayers' expense, all justified by the proposed irrigation of six-tenths of one percent of North Dakota's farmland.

If Garrison is an economic travesty, it is equally an engineering nightmare. It involves an enormously complicated scheme of draining and flooding selected tracts of both drylands and marshes. To construct McClusky Canal, for example, the Bureau of Reclamation had to reduce the level of the aquifer in the Turtle Lake area by draining large amounts of water. The result was a lowering of the water table. Similarly, the Painted Woods Aquifer in Burleigh County had to be lowered for canal construction, and a host of problems resulted. The *Jamestown* (N.D.) *Sun* reported the claim of a former Bureau of Reclamation project officer that "building the canal through this reach will tax the ingenuity of the contractor in his construction methods and use of equipment." Garrison has also taxed the ingenuity of the farmers whose wells went dry when the water table was altered. "Without water, just getting by in this area became difficult," recalls Ben Schatz, an ex-farmer who moved into town when canal construction robbed him of his well.

This farm in Harvey, North Dakota, will be totally submerged by the Garrison project.

"You're just a dot to us," a Bureau of Reclamation official told farmer Ben Schatz. "When you are in the way, we move you."

Compounding the draining problems is considerable flooding. Besides the dozens of leaks in McClusky Canal that continue to cause spillovers onto private farmland, the Bureau of Reclamation has intentionally flooded other areas in the wake of its construction projects. Conservationists have joined fiscal conservatives in opposing Garrison, because this excessive flooding threatens to destroy or alter more than 70,000 acres of delicately balanced prairie wetlands while ruining seven national wildlife refuges located in the state. Environmentalists have pointed out that fish and wildlife populations are seriously jeopardized when the ecological balance is upset by large amounts of water washing away food sources and nesting sites.

The National Audubon Society began opposing the project in 1973, expressing concern over the loss of both productive farmland and wetland habitat. The wetlands include the seven national wildlife refuges plus waterfowl areas and state game-management areas. Wildlife experts also estimated that up to 70 species of birds, including grebes, herons, geese, and ducks, are known to breed in an area that could be inundated by the project.

When Garrison Dam was built during the 1950s, a wildlife refuge was established to compensate for the destruction of a beautiful wetland habitat. Named for the famous naturalist John James Audubon, the Audubon National Wildlife Refuge provided a substitute habitat for a variety of wildlife, including cranes and migrating ducks and geese. Because of flooding during construction of McClusky Canal, however, the government has endangered its own refuge. In a 1979 environmental impact statement for the Garrison Diversion Unit, researchers warned that flooding the Audubon's shallow marshes could ruin whooping cranes' nesting sites and increase erosion damage to their habitat, resulting in a population reduction. The same grim forecast was predicted for other marshland wildlife.

The Garrison project poses other environmental problems, as well. For example, the Canadian government opposes the project primarily because the 74-mile-long McClusky Canal comes perilously close to bridging the Continental Divide between North Dakota and Manitoba, sending Missouri River water into the Hudson Bay drainage. These two drainages have been separate for more than 10,000 years. In that time, each basin has developed its own plant and aquatic species. Wildlife biologists on both sides of the border have said that an interbasin transfer of water, fish species, and other biological materials ("biota") threatens both the integrity of Canadian waters and, ultimately, major portions of the Canadian fishing industry. Furthermore, they argue that construction of Garrison violates a 1909 treaty under which Canada and the United States promised that "waters flowing across the boundary shall not be polluted on either side to the injury of health or property on the other."

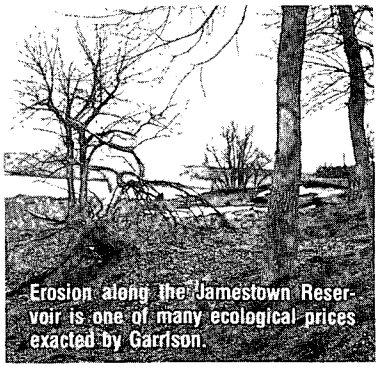
Construction of Lonetree Reservoir on the Sheyenne River, which began last summer, also threatens the integrity of Canadian waters, since the two drainage basins will be brought to within 20 feet of each other. A report by the US–Canada Joint Commission warns that despite the claims of Garrison officials, water from the Missouri drainage will be able to infiltrate the Hudson Bay drainage. In addition, Sheyenne Lake National Wildlife Refuge will be totally inundated and thus destroyed. And Sheyenne Lake is not the only national wildlife refuge that is endangered. At Arrowhead National Wildlife Refuge, the Audubon Society has predicted that with the 35 percent increase in water flow, the stronger current will flush out wildlife food supplies and virtually ruin a federal project already paid for by taxpayers.

Over the years, under the strain of considerable opposition, the Bureau of Reclamation has repeatedly altered the project to respond to current objections. Most recently, for example, it decided to build Garrison in stages, starting with Phase I—an 85,000-acre plan, scaled down from the original 250,000 acres—in an attempt to mollify the critics for the time being.

Garrison's ecological price is steep, but it has taken other tolls, too, more-subtle social losses that are difficult to measure. McClusky Canal has divided several communities in its 74-mile-long path, both physically and politically. It has disrupted otherwise peaceful rural communities by rearranging lives. "Our township used to have roads which once connected all of us. Now all we have is a bunch of dead-end roads which run right into the canal, dividing farms in two," observes farmer Albert Klain, who sees the Garrison Diversion Unit as an endless series of broken promises.

How does Garrison make sense for someone like Ben Schatz, a farmer whose 720-acre farm has been hacked apart by construction of the McClusky Canal? Schatz worked the land for over 50 years and lost the battle against the canal being routed through his farmland. He remembers that the Bureau once offered him $10,000 for an 80-acre right-of-way. "At first they told me the canal would be 25 feet wide. They didn't tell me that this was at the canal's bottom and that the canal might also be 100 feet deep where it cut through my farm," Schatz adds. He says that a Bureau of Reclamation official later told him, "You're just a dot to us. When you are in the way, we move you."

Brothers John and Ralph Anderson, who operated a livestock business while renting out their cropland, initially lost 300 acres to the canal. After it was constructed, they found that their water quality dropped significantly and the canal drained the surrounding aquifers, reducing the water table. They ended up selling out completely when they lacked sufficient water to continue with their business.



Erosion along the Jamestown Reservoir is one of many ecological prices exacted by Garrison.

Irrigation sounds as American as apple pie—but the truth is that the Garrison unit is a prime example of pork-barrel politics gone mad.

So who in North Dakota supports Garrison? The Garrison Diversion Conservancy District (GDCD) does, for one. It was established by the North Dakota legislature and has the power to levy taxes throughout a 25-county "conservation" district. It has levied a one-mill tax and has already collected millions in revenues. McLean County residents, for example, have already paid more than $200,000 in conservancy taxes, but like their neighbors in some other counties, they have not received one drop of irrigation water. The GDCD is the primary cheerleader for the project, and it uses state tax money to issue a mountain of pro-Garrison promotional materials.

There is also considerable support for Garrison in some of the small towns' business communities. After all, there is money to be made from lengthy construction contracts and long-term stays by construction crews. Professional and civic organizations have likewise backed the project, as have political leaders on both sides of the aisle.

Garrison proponents indicate that over 1,200 farmers will irrigate when the full project is completed and that North Dakota will never again witness the severe droughts that ravaged the state in the 1930s. Garrison opponents respond that since Garrison will only assist six-tenths of one percent of the farmland in the state, the other 99.4 percent could be just as dry as it was in the 1930s.

An argument frequently offered for continuing Garrison is that North Dakota is *owed* compensation stemming from the construction of Garrison and Oahe Dams, when 550,000 acres were flooded. Farmers in North Dakota owned 350,000 of these acres, and the Sioux and Fort Berthold reservations owned the rest.

The Garrison unit may be compensation, but it's a crazy way to compensate. The $1.2-billion currently estimated cost of Garrison means that the federal government is paying an exorbitant $3,400 per acre to North Dakotans for land lost to these two reservoirs. For their 155,000 acres that were swamped by these dams, the Sioux and Fort Berthold tribes actually received just over $80 per acre from the bureaucracy. Most important, though, it was the Missouri River bottomland farmers and Indians who gave up their lands to the dams, and *neither* of these groups will be irrigating under the Garrison Diversion Unit.

For those few farmers whose lands will be irrigated by the project, the Garrison Diversion project is a bonanza. Their lands become increasingly valuable with irrigation systems in place, yet they will have only paid a token 3 percent of the actual costs of bringing water to their lands. With water, they will be able to produce more crops. This increase in productivity becomes capitalized into the value of their land, while the costs of the irrigation are paid by others.

Garrison is a "make-work" project in the view of some North Dakotans. "The government poured in a lot of money to our state and gave people jobs digging the canals or building dams, but they never thought about what the project would ultimately mean for those of us who live here," says one Wilton, North Dakota, farmer.

For another North Dakotan, Garrison Diversion has meant a 20-year lesson in government's broken promises. "When the Bureau of Reclamation first ruined

my well, they promised that they would haul water so I could keep my cattle operation. When it's 20 below, how can you expect the bureau to haul water from their offices in Bismarck?" he asks.

Albert Klain, whose farm is divided by the McClusky Canal, notes, "The bitterness that is so pervasive in our area cannot be measured in dollars or cents. You always have the option of filing claims against the bureau when they ruin your well or divide your farm in half. But what happens is that your name goes on a list and the bureau then tries to acquire your land outright so that you don't cause them any more problems."

The only portion of the Garrison unit that has been built is the McClusky Canal and accompanying pumping stations, but Garrison remains controversial even in this incomplete state. For now, the water just lies in the big ditch, heading nowhere. Beset by a tortured legal history of numerous attempts by opponents to eliminate its congressional funding, Garrison is now the survivor of several presidential administrations, thanks to a highly persistent bureaucracy. In North Dakota, the opposition—the dryland farmers whose lives have been altered—is as strong as ever. These people do not give up easily. The unforgiving prairie has made them resilient.

Optimists at the Bureau of Reclamation say that the total project with 250,000 acres of irrigation *may* be completed by the year 2000, provided it is steadily funded by Congress, but construction has not always been steady. Between 1975 and the summer of 1983, for example, *no* new construction contracts were awarded, since Garrison was tied in knots by lawsuits.

In its 1976 case against the Department of the Interior, the National Audubon Society temporarily disabled the project, when then-Secretary of Interior Cecil Andrus agreed to stop construction of Garrison until a supplementary environmental impact statement and revamped wildlife mitigation plan were prepared. President Carter put Garrison on his "hit list" of about 20 federal water projects to be scaled down or canceled. When Carter presented his selections to Congress, the list was quietly shelved. Rare is the federal lawmaker who will support cancellation of a large water project in his home district or the district of a powerful or valuable colleague.

Under James Watt's administration at the Department of the Interior, Garrison received a significant boost when Watt approved a "Phase I" plan to irrigate 85,460 initial acres. Since then, Garrison supporters have maintained a constant vigil for additional appropriations. In 1982, despite a vote of 252-152 in the House for an amendment to delete all funding for Garrison, the Senate was able to muster a $4-million appropriation for Lonetree Reservoir's construction. This was followed in 1983 by a congressional appropriation of $22.3 million—the largest congressional gift since the original authorization in 1965.

Yet despite defeat after defeat, Garrison's opponents have found reason for a glimmer of hope in the 1982 House vote against continued funding for Garrison. True, it's only a glimmer. North Dakota's two senators, Democrat Quentin Burdick and Republican Mark Andrews, are both ardent supporters of Garrison and both sit on the powerful Appropriations Committee. Few of their colleagues have been eager to incur their displeasure by opposing Garrison. Burdick has even bragged to the folks back home about his successful arm-twisting behind the scenes.

As 1984 was drawing to a close, there were mixed messages concerning Garrison's future. On the one hand, the White House requested $53.6 million for 1985 construction work, a figure that was fully recommended by the Senate Subcommittee on Energy and Water Development. On the other hand, the House omitted any mention of funding for Garrison.

In the wake of its request, however, the administration sent the North Dakota congressional delegation a "deferral message," a polite way of signaling that Interior Secretary William Clark is "not quite as enthusiastic about Garrison as Watt was," says an anti-Garrison lobbyist. "This is the administration's way of psychologically backing away from Garrison without doing anything too drastic." Perhaps.

In the fall, negotiations between environmentalists and Garrison supporters took a different tack. Since no political official evidently wants responsibility for either aborting or perpetuating Garrison, the matter was turned over for evaluation to a 10-member commission chaired by former Louisiana Republican governor David Treen. The commission was asked to look at alternatives to Garrison—to decide whether Garrison "can be redesigned and reformulated." In the meantime, all congressional appropriations have been held in escrow by the Office of Management and Budget until the commission gives the thumbs-up or thumbs-down sign.

At the end of October, two months before the commission's final report was due, things did not look auspicious. The commission was heavily stacked with probable and overt supporters of Garrison, including Pat O'Meara of the National Water Resources Association, a group favoring water development; John Paulson, the former editor of a Fargo newspaper; Bud Wessman, the mayor of Grand Forks; and John Whittaker, undersecretary of the Interior Department in the Nixon and Ford administrations. Few Garrison opponents were sanguine about the possibility that the commission would impede—let alone stop—the roll of this pork barrel.

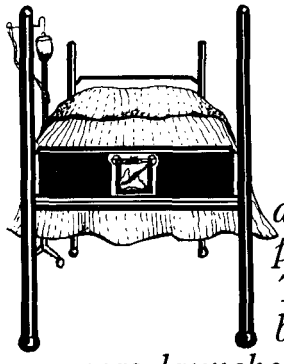
Whether its funding is delayed or delivered, the Garrison Diversion Unit remains a classic illustration of "subsidized destruction"—environmental wreckage engendered by economically senseless but politically useful government programs that benefit well-defined interest groups. Such results are not accidental but follow from the incentives that are built into the political and bureaucratic processes. When the government—whether under the temporary control of Democrats or Republicans, conservative or liberal politicians—is managing and controlling resources, the relevant decisionmakers, unlike the public, are buffered from the negative ecological and economic impacts of their decisions. Projects are lobbied for, developed, and eventually funded. And as a rule, these projects are costly, unnecessary, and ecologically dismal.

The good news for the taxpaying public is that projects like Garrison are beginning to arouse constituencies for free-market environmentalism. This new environmental perspective, based on the recognition of property rights, an understanding of the market process, and an appreciation of limited government, provides responsible answers to the issues surrounding resource development. Only the bureaucrats, the subsidized interest groups, and the pork-barrel politicians have cause for alarm at the prospect of free-market environmental analysis making its way into political discourse. After all, fiscal conservatives should find Garrison and similar projects no more palatable than do environmentalists, even if for different reasons. Garrison provides persuasive evidence that these two factions may have more in common than they have usually imagined. ◻

Renée Wyman is an attorney and free-lance writer in Bozeman, Montana. John Baden is the director of the Political Economy Research Center, also in Bozeman.

A Profit a Day Keeps Insolvency Away

It took a dose of the private sector to revive an ailing government hospital in Canada.



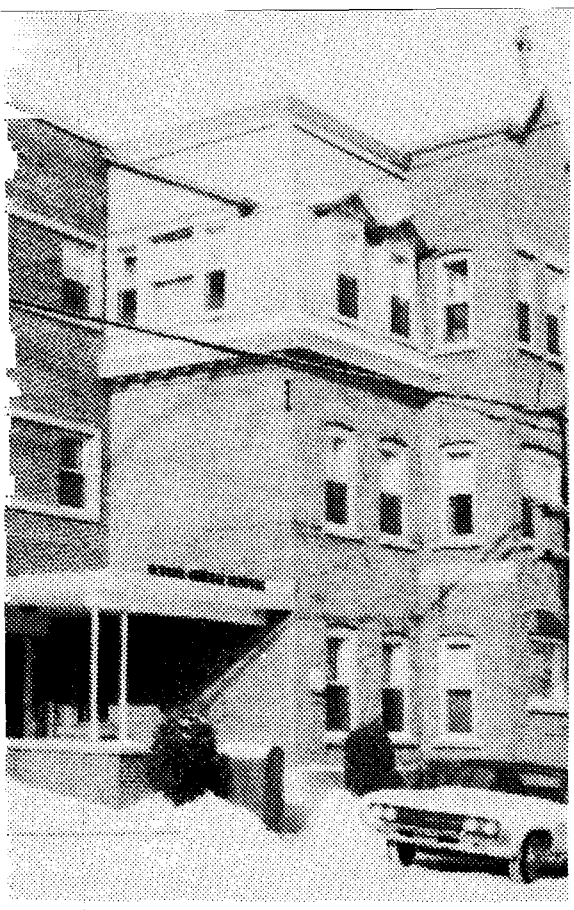
Hawkesbury, Ontario, is a town of some 10,000 people located between Ottawa and Montreal. The local hospital is a pair of three-story brick buildings. About two years ago, an experiment was launched in those buildings that holds out the hope of radical improvement to many hospitals in the Canadian hospital system and elsewhere.

The experiment did not carry the drama of a new advance in surgical technique. There were no transplant headlines, no trumpeting of new coronary-bypass operations. Rather, the experiment was economic, not medical. Yet it may prove to be more beneficial for patients generally than some of the very high-cost, high-prestige projects that abound in the medical arena.

The story starts a few years ago. Hawkesbury General Hospital was the result of the amalgamation of two old hospitals—both badly in need of modernization—that jointly were supposed to provide medical care to a total community of 35,000 people. Hawkesbury operates within the Canadian health system, which provides "free" medical care to the public.

This joint operation had been running at a half-million-

By David Davis



Faced with the prospect of having to make do with its antiquated facilities, and with the possibility of half-million-dollar annual losses in perpetuity, the hospital board turned to private management.

dollar annual deficit for many years. The hospital was not accredited (that is, it had not passed certain specified inspections by the national Ministry of Health). The hospital board of governors was not able to get the hospital management to adopt quality-assurance programs. To cap it all off, the hospital was plagued by major problems with morale and labor-relations.

For several years, the hospital board had struggled with these problems, but it was effectively barred from achieving any improvements because of inadequate information and inefficient administration. The final straw came when it found it could not raise from local resources the necessary one-third share of the costs to construct a new building. Faced with the prospect of having to make do with its antiquated facilities, and with the possibility of half-million-dollar annual losses in perpetuity, the hospital board turned to the Ministry of Health for assistance.

The ministry suggested that the board consider employing a private hospital-management company to help it cure its financial woes and put the hospital back on the rails. The board was far from overjoyed at the prospect of handing over the management of the hospital to a private concern, but, nevertheless, it invited tenders from 11 companies and received bids from three, including one from a major Ottawa public hospital. It selected one—American Medical International (AMI), the third-biggest of the American hospital/health-care companies, based in Beverly Hills, California—and signed a 12-year management contract, which took effect January 1, 1983. Hawkesbury thus became the first privately run hospital within Canada's public health system.

The results were dramatic. In its first year managing Hawkesbury, AMI transformed the $500,000 annual deficit into a surplus of $369,000. Staff morale has improved. A senior inspection team from the Ministry of Health found "improved methods and services in the past year with a positive influence on the quality of patient care." The chief of the medical staff at the hospital commented, "Patient care has improved 200 percent."

In more-specific terms, the hospital has doubled the size of its physiotherapy department and has added dietary counseling and an ultrasound department to its services. Extra nursing staff in the emergency department ensures that patients may now be seen within the hour, rather than the previous wait of up to four hours. Staff-training expenditure has been increased from virtually nothing to $15,000 within the first year. The hospital library, which was previously described by the chairman of the board of governors as "virtually useless," is being updated over a three-year period. Good purchasing management made possible the acquisition of an electronic patient-monitoring system at a discount of 15 percent.

There were no miracles at Hawkesbury—nobody walked on water. The sharp improvement in efficiency and major upgrading of quality of service were both achieved by common sense, good management, and a combination of medical, technical, and managerial expertise. Proper financial-control systems were installed; first-class specialist advice in a variety of technical areas was made available; and most important of all, department heads were given responsibility and were required to exercise it. In the words of Rhonda Schaffer, the hospital's chief dietician, "We were given control and responsibility of our departments, and the resources to run them professionally."

American Medical International seems to have exercised subtlety and discretion in handling these matters. Above all, it employed a highly competent Canadian as hospital administrator and gave him plenty of support, rather than bringing in lots of American outsiders.

The improvements were also achieved without laying off any full-time workers. There were cuts in overtime and in part-time staff, and a number of petty abuses of hospital resources (such as telephones) were eliminated. But the staff and their branch unions seem very happy with the change. The president of the laboratory technicians' local put this succinctly: "Employees feel a new direction. We all have the same goal. We're trying to better see what's going on in each department."

On a national level, the unions have been silent—and of course the Ontario leadership of the New Democratic Party, Canada's socialist party, has described the private management of public hospitals as a threat to the state-run health-care system. Beyond that, however, there has been a remarkable absence of criticism.

Most notable has been the conversion of the hospital's board. Many governors were concerned about placing the care of their patients in the hands of people whose objective is to make a profit. Not unreasonably, they were concerned that the company would be tempted to cut costs at the expense of the quality of

Photographs courtesy of Hawkesbury Hospital

care—at the expense of the patients. In fact, the reverse has happened: higher quality and lower costs were achieved simultaneously and by the same actions. This is a lesson that Japanese industry has been teaching the West for twenty years: intelligent pursuit of higher quality can very rapidly lead to lower costs. It does not matter whether we are considering cars, cameras, calculators, or care of the sick—the same principle applies. For example, preventive medicine is highly cost effective and simultaneously provides the best possible quality of health care: less sickness.

A slightly more arcane example demonstrates how human ingenuity can help both the cost and the quality of care. A number of hospitals under the management of AMI needed a computer-assisted topographical (CAT) scanner, an expensive and sophisticated diagnostic tool. None had sufficient resources to buy one, and indeed none could utilize one to its full capacity.

The management firm responded by packaging the delicate electronic machine so that it could be transported by road between hospitals. Thus, high-quality health care was brought down to a practicable cost. By contrast, under a government-run system it is perfectly possible for three hospitals in a single city *each* to have its own, underutilized, machine.

Moreover, with AMI's track record, a bank was willing to loan the money needed for the construction of a new facility, and the hospital moved in this year. As a result of this and other achievements, interest in the private contract-management approach is spreading rapidly among hospital boards throughout Ontario.

Hawkesbury, it's worth noting, is not an isolated example. In the United States, a number of public-sector hospitals have been rescued from the final stages of decline by private hospital companies. As at Hawkesbury, costs were cut at these institutions while quality of care was improved. The Hawkesbury experiment is not just remarkable—it is repeatable.

Canada, like other countries, has difficulties funding its health-care system. The costs of running Canadian health-care institutions doubled in the six years to 1982. Furthermore, the quality is not uniformly good. Some 54 percent of Canadian hospitals are not accredited. Although a lack of accreditation does not automatically imply either inefficiency or poor quality, the size of the number does indicate that there is scope for many more Hawkesburys.

The experiment at Hawkesbury demonstrates that it is possible, within a nominally free public health-care system, to "privatize" the provision of hospital services. More important, such privatization shows that making profits and caring for patients are not conflicting goals: running a hospital on a sound business basis in fact makes it possible to have *both* lower costs and better care, an achievement that eludes governments.

Naturally, extreme care would have to be exercised in deciding how the contracts and remuneration procedures of a privatization scheme would work. There are many pitfalls that could induce either poor care or unnecessary increases in the cost of the hospitals. But there are many examples of both successful and unsuccessful contractual arrangements within the American health-care system. A relatively small amount of investigation would produce robust guidelines as to how privatization ought to be achieved.

In my native Britain, privatization would be especially beneficial. Demographic changes are going to cause the cost of the National Health Service (NHS) to climb by more than one percent a year above inflation; technological costs may increase this further. If Britons are to maintain current levels of health care—and improve those levels without taxing the economy to the breaking point—they must find ways of *reducing* health-care costs. It is time that Britain undertook its own Hawkesbury experiment.

Private contract management of a National Health Service hospital would not, of course, give Britons any extra freedom of choice. Neither would it tell us if our hospitals are operating at their optimal size; nor would it, per se, break the monopoly of the NHS unions. It would simply give the taxpayer better value for the money; and the sick, better care.

Britain has plenty of run-down hospitals. And there is no shortage of candidate companies able to attempt the task of revitalizing these institutions. At worst, it would be a low-cost/no-cost experiment. We—the people who both pay for and use the National Health Service—would have nothing to lost and much to gain. The same could probably be said for government health systems everywhere.

David Davis is a senior executive with Tate & Lyle, the British-based international sugar manufacturer and refiner. He recently returned to the United Kingdom after spending two years in Ontario, Canada.

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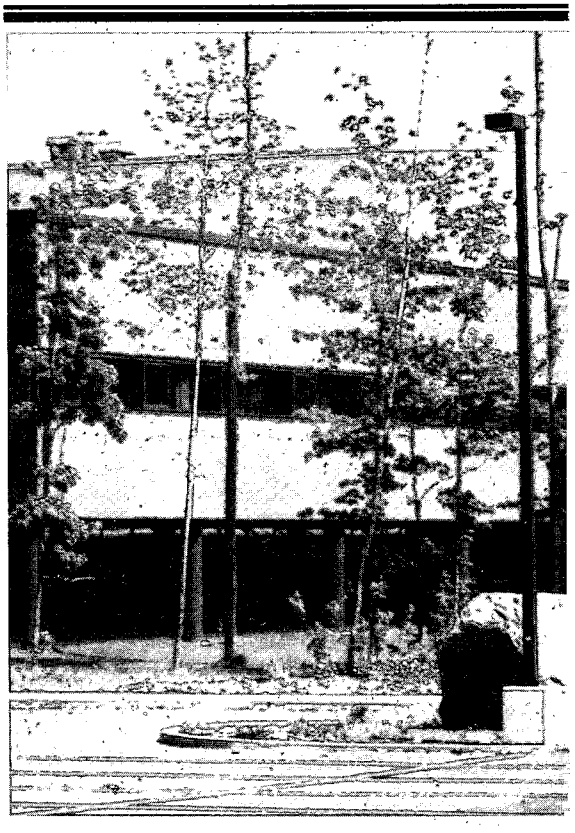


Why the free market can provide for the long term, while the government can barely plan past next Thursday.

PATIENCE IS A MARKET VIRTUE

Paper entrepreneurialism [which characterizes US business] involves little more than imposing losses on others for the sake of short-term profits for the firm.

Robert B. Reich
The Next American Frontier

We also recognize the limits placed on the American economy by huge corporations that dominate productive investment and make their investment decisions increasingly on short-term profit criteria.

Martin Carnoy, Derek Shearer, and Russell Rumberger
A New Social Contract

If we are to maintain our fiduciary relationship to the generations to come, then we must maintain our lands, and their lands, in perpetual trust. These last remnants of our great natural heritage are not ours to destroy for short-term profits.

Ernest F. Hollings
United States Senator

It is a widely held belief that, left to the market, business people will ignore the interests of the future in their obsession with short-run profits. After all, the profits made today are theirs, while the problems that arise in the future will be burdens shouldered by others. This emphasis on short-term profit supposedly explains why much of our industrial base is eroding and we are being outcompeted in world markets, why we ran head first into an energy crisis, and why we have been despoiling our environment and adding to the list of endangered species.

The solution to these problems that is urged upon us is as predictable as the sunrise: If we are to control the "rape-ruin-and-run" impulses of the marketplace, we must substitute collective action for private action. We need, in short, to rely more on the political process and less on the market process if we are to satisfy our obligation to future generations.

This collectivist "solution" takes on wide-ranging forms. For example, in the widely remarked book *The Next American Frontier*, Harvard professor Robert Reich urges the federal government to establish banks that would provide "deserving" industries low-interest loans for expanding their capital base. Or consider the interruption in the flow of oil from OPEC countries in 1973. Critics of the market process simply assumed that what was needed was direct federal control over the pricing and allocation of our energy resources. And it is generally assumed that unless the government directly regulates decisions made in private markets, our environment will be sacrificed.

No doubt market decisions can be, and often are, short-sighted. These decisions are motivated primarily by the desire to advance private objectives. Market decisions take the future into consideration only if it is in the interest of market decisionmakers to do so. This is certainly not surprising. After all, how many indi-

BY DWIGHT R. LEE

Illustrations by Dave Hudson

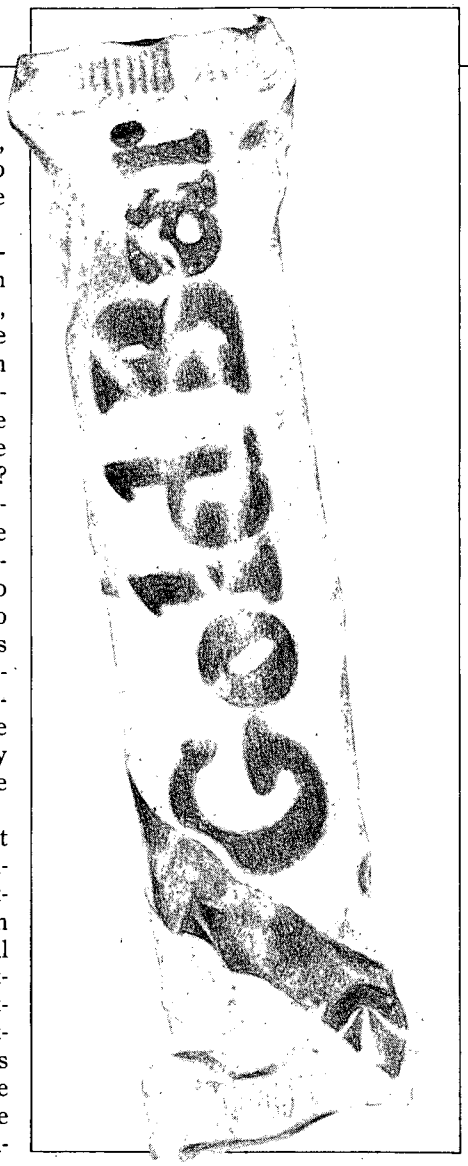
viduals will sacrifice their well-being, and that of their loved ones, in order to promote the ill-defined interests of future generations?

But what is the basis for the widespread faith that while decisionmakers in the private market are short-sighted, those who work for government can be trusted to put things right if only given the power to do so? Is this because politicians and government bureaucrats have less concern for themselves and more concern for the future than other people? Surely this is not the case, and it is doubtful that many people believe it is. More likely, the expectation is that the self-interest of politicians is tied, not to business profits, but to their response to citizens who can express their concerns at the polls, concerns that obviously include long-run considerations. As opposed to the profit incentive in the market, political incentives supposedly combine self-interest *and* concern for the future.

This sounds plausible. But it is not true. The incentive structure of government generates little motivation for political decisionmakers to consider long-run consequences of their actions. Political decisions tend not only to be short-sighted, but to be even more short-sighted than those made in a market setting. If, as many believe, we face serious problems because of the myopia of the marketplace, attempting to solve these problems with politically inspired solutions will quite likely make matters worse. Former British Prime Minister Harold Wilson did not know how right he was when he remarked, "In politics, a week is a long time."

Examples of the short attention span of the political process abound. Our nearly bankrupt Social Security program clearly points to the political and economic consequences of politically truncated time horizons. And surely it is the near-term focus of political incentives that accounts for the chronic failure of attempts to reduce the federal budget deficit.

We repeatedly find ourselves in situations that no one would have chosen over relevant alternatives in the past. Yet these alternatives were overlooked, because politically we were unable to look ahead to long-run consequences. And once having opted for the short-term expedient, there is no easy or obvious way to extricate ourselves. The only genuine escape requires the politically unacceptable: imposing immediate costs on well-organized interest groups.



From monetary policy to poverty programs, we have hugged one political tar baby after another. As a result, in case after case there seem no good options left. Proposals for addressing these problems are typically cosmetic quick fixes reflecting the very short-run perspective that led us into the problems to begin with. Confronting the problem of inflation with wage and price controls, or "solving" the problem of declining productivity by creating a federal development bank to allocate capital to favored industries, illustrate the political attractiveness of substituting temporary pretenses for genuine solutions.

In making the case that political decisionmakers face incentives to ignore the future consequences of their actions, the first thing that comes to mind is the importance attached to surviving the next election. The politician knows he will not be rewarded for the long-run benefits of a policy he champions if, because of the short-run costs imposed by the policy, he is defeated at the polls. This political impatience to generate benefits *before* the next election favors policies that provide immediate payoffs and impose deferred costs. If the payoff is realized before the upcoming election and the cost can be postponed until afterward, the policy will likely find political favor. Patience may be a virtue, but in the political arena it is a virtue that is seldom seen as its own reward.

Social Security legislation provides a case in point. From 1950 (when the first major increase in Social Security benefits was approved) through 1974 (after which benefits have been indexed to the cost of living), Congress increased Social Security benefits 11 times. Eight of these increases occurred during election years. Furthermore, in seven out of these eight cases the increase in Social Security taxes to pay for the additional benefits was postponed until *after* the election. Veterans' benefits follow the same pattern. According to one study, "Since 1962, [veterans'] benefits have increased an average of $660 million (at annual rates) between the third and fourth quarters of election years, but only $220 million in years without elections."

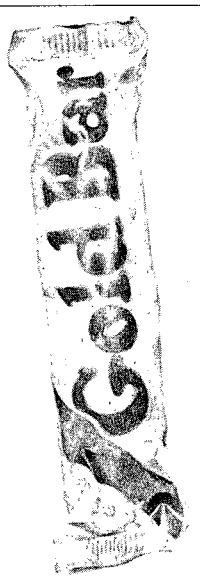
Why don't voters, through the electoral process, say nay to these short-sighted politicians? The whole concept of voting is based on the hope that politicians will respond to public concerns, concerns that clearly include long-run considerations. So why are these long-run considerations so often ignored?

Unfortunately, citizens have little motivation to acquire the information necessary to assess the long-run consequences of political decisions. Informed and far-sighted political decisions provide benefits to citizens whether or not they themselves are politically informed. So being informed on broad political issues gives the informed voter no more claim on the advantages of sound public policy than the claim of the uninformed.

It is rational, then, for individuals to remain politically ignorant while concentrating attention on areas where additional knowledge can provide a private advantage. Surely our well-being is influenced more by political decisions that determine whether we are at peace or war than it is by personal decisions on where we buy gasoline. Yet, most people are more informed on where gasoline is a nickel-a-gallon cheaper than they are on the particulars of foreign policy.

Occasionally, the *immediate* consequences of a policy can be associated with that policy without detailed information or expert knowledge. But even the most-informed will find it difficult to accurately anticipate the *long-run* consequences of a government policy or to assign precise responsibility for these consequences once they arise. Politicians are fully aware of this problem. They recognize that they are much more likely to be held accountable for the near-term results of their decisions than for the long-term results, so they focus their time perspectives accordingly.

An all-too-pertinent example is the political popularity of inflationary policies. An expanding money supply permits politicians to provide immediate and highly visible benefits for which they can easily take credit. Interest rates can be temporarily reduced, employment can be temporarily increased, subsidies can be doled out, services can be provided, and public projects can be financed. It is only after a lag, which from the political perspective is of considerable duration, that citizens pay for these benefits through higher inflation. Yet politicians have been remarkably successful at avoiding blame for inflation. A public ignorant of basic economics is gullible to the political rhetoric that blames inflation on excessive profits, inflated labor union demands, poor harvests, greedy oil sheiks, or irresponsible consumer spending.



Politicians recognize that they are much more likely to be held accountable for the near-term results of their decisions than for the long-term results.

The imperative

of surviving the next election can explain why the political process is short-sighted. But it does not explain why it is *more* short-sighted than the market process. Corporate managers, for example, do not have particularly long tenures on average. And those to whom they are responsible—the stockholders of the corporation—normally are only modestly informed about the details of management decisions. So can't the logic that explains political short-sightedness similarly show that private-sector decisionmaking is excessively short-sighted?

National industrial policy advocate Robert Reich argues just that: "Managers who anticipate a short tenure with their firm unsurprisingly have little interest in long-term solutions to its basic problems. Their goal is to make the firm (and themselves) look as good as possible in the immediate future." And there seems to be an empirical basis for this argument. The average tenure of a corporate executive is, in fact, less than that of the average member of the House of Representatives. So why wouldn't business people have as little, if not less, concern for long-term consequences than do politicians?

It is here that the role of property rights enters the picture, although analysts such as Reich conveniently ignore that role. No social institution does more to motivate current decisionmakers to act *as if* they cared about the future than the institution of private property. All economic decisions—whether deciding when to consume a candy bar or how much to invest in a long-lived hydroelectric project—require a comparison between present and future values. Efficiency always requires that some current benefits be sacrificed in order to realize even greater benefits in the future, with this future often extending beyond the life expectancy of current decisionmakers. Obviously, unless those currently in control of resource decisions are in a position to realize some of the distant benefits from current sacrifices, there will be few current sacrifices. It is private-property rights that allow decisionmakers to capture some of the long-run gains that flow from current sacrifices.

At one level, the argument here is completely obvious. If ownership rights are well defined and enforced, then the owner of a resource is confident that he will still own the resource in the future and can benefit accordingly if its future value increases. If you think your candy bar will taste better if eaten two hours from now, you will take that future value into consideration.

But this cannot explain why private ownership motivates people to make investments that will not pay off until long after they are dead. Why, for example, replant white oak and Douglas fir forests that will not be harvested for 60 or more years? The explanation lies in the transferability of property rights.

The owner of farmland, for example, may be old and heirless. Personally, he may not care a thing about the future productivity of his land. But if property rights in land are transferable, there is little worry that this farmland's productivity will be depleted through short-sighted mismanagement. The immediate wealth of the owner is directly tied to the value that younger individuals who might buy the land place on the long-run productivity of the land. The old, heirless owner will make decisions *as if* he were concerned about future values. As long as property rights are transferable, those who best accommodate the tension between present and future demands will have both the opportunity and the motivation to buy resources from anyone who is insensitive to future concerns.

How does all this

relate to corporate decisionmaking? Corporations, like farmlands, have well-defined and transferable ownership claims—stock in a corporation can be bought and sold. This has far more influence on the time perspective of corporate managers than does the length of their tenure. That corporate stock can be traded creates both the information and the incentives for stockholder decisions that encourage corporate managers to consider the long-run consequences of their actions. Because stockholders have a private stake in the value of their stock—and can trade the stock depending on its performance—they have a

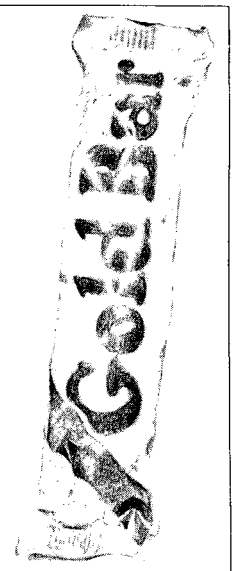
more-personal interest in the long-run consequences of corporate decisions than citizens have in the long-run consequences of political decisions. Moreover, stock ownership gives them more control over corporate managers than citizens have over political managers.

From the information provided through the stock exchanges, stockholders can easily determine whether the return from owning shares of, say, IBM compares favorably or unfavorably with the return from shares of Xerox, for instance. Certainly this is an easier task than most citizens faced with trying to determine whether they would be better off under a Reagan administration than a Mondale administration.

With corporate stock easily traded on organized markets, management decisions that reduce the long-run wealth of a corporation will be reflected immediately in the price of its stock. If, for example, the management of a corporation decided to borrow against future income in order to finance exorbitant dividends, stockholders would recognize immediately that they were worse off. And the value of their stock would, in response to long-run effects of the excessive dividend policy on the corporation's wealth, decline by more than the value of the additional dividends. The existence of stock that is undervalued because of myopic mismanagement creates both the incentive and the opportunity for a more future-oriented management team to assume control of the corporation—through a takeover bid, a proxy fight, or (more likely) a merger—and thereby raise the value of its stock.

Citizens have no such claims against the long-run wealth of the general political community. Consequently, they are less sensitive to reductions in that wealth. On the other hand, they are highly sensitive to reductions in temporary, but individually realized, benefits that result from political decisions. Therefore, one would predict political support for a government policy similar to a corporation's borrowing to finance current dividends.

Consider, for example, a policy of persistent deficit spending in order to finance a certain level of government expenditures. Such a policy allows the government currently to provide benefits, at the expense of crowding out private investment. The result is, of course, a reduction in the country's future wealth. That such a policy can be practiced with political impunity is evident from the record. Since 1960 the federal budget has been in surplus exactly once, with the almost unbroken string of deficits tending upward at a rapid rate. This record reflects myopic mismanagement that, pursued by a business, would have swift repercussions.



No social institution does more to motivate current decisionmakers to act *as if* they cared about the future than the institution of private property.

When contrasting the difference in corporate and political time perspectives, two additional features of private property should be considered. First, the transferability of corporate stock enables property interests in the present value of a corporation to be concentrated. That is, a large percentage of a corporation's stock can be, and often is, owned by a small percentage of the stockholders. The dominant stockholders will have both the incentive and the means to keep management focused on the consequences of their decisions, and thereby responsive to the long-run concerns of all stockholders.

Also, privately owned corporate stock allows for compensation arrangements that create a direct management incentive for far-sighted decisions. Typically, a significant portion of the compensation received by corporate managers is tied to the value of the corporation's stock. This compensation takes the form of payment in stock, dividend income, and capital gains.

Economist Wilbur Lewellen compared this stock-related compensation with wage compensation for managers in 50 of the largest manufacturing corporations over the period 1940–1963. The average stock-related compensation for top executives, according to Lewellen's calculations, was more than four times larger than their average after-tax wages. The advantage realized by all stockholders from this type of management compensation is obvious. Because the wealth of managers is held hostage by the willingness of stockholders to continue holding their stock at existing or higher prices, managers face strong incentives to make decisions reflecting the long-run concerns of the stockholders. No comparable connection exists between the personal wealth of political managers and the long-run impact of their decisions on the wealth of the country and their constituents.

Whether a politician or a political bureaucrat is involved, the basic reason political myopia is more acute than market myopia comes back to the lack of transferable property rights to the community-wide consequences of the decisions being made. Neither politicians nor political bureaucrats can, at the end of their tenure, auction off the capital value created by their decisions, as can corporate managers. The flow of benefits received by these political decisionmakers cannot be expected to extend beyond their tenure.

In the case of government bureaucrats, the flow of benefits they receive is certainly tied more to increases in their bureau's budget than to the general wealth-increasing effects of their activities. For example, if a bureau's budget is based on the number of long-lived projects it is constructing, bureau managers will have a strong incentive to justify new projects whether or not those projects are warranted by a realistic comparison of costs and benefits.

Neither can interest-group recipients of government programs sell common stock in government—stock that would reflect the increased present value generated by the interest group's willingness to moderate current demands.

When an influential group is in a position to exploit the political process for immediate gain, it realizes that it would reap no future benefits in exchange for refraining from exploiting the situation now. Each interest group is in much the same position as a buffalo hunter in the 1870s: Each knows, perhaps, that all would be better off in the long run if everyone reduced his demand. But because no one owns the buffalos, everyone also knows that the buffalo (public largesse) he doesn't capture today, someone else will capture tomorrow. Without property, there will be little patience.

Yet this fact

is almost always overlooked. Instead, the standard response to the problems blamed on market myopia is to bring on the even more myopic instruments of government control and regulation.

When energy supplies were reduced in 1974, for example, the market response was entirely appropriate to concerns about future availability: energy prices increased, signaling the desirability of conserving energy resources for the future and providing a strong incentive to do exactly that. The prevailing attitude communicated through the political process, however, was that we were running out of resources because of short-sighted market decisions.

The plea for government action was immediate and intense. And government action was what we got. Price ceilings were imposed, ensuring that consumers would want more energy now and that less would be invested to develop future energy supplies. Mandatory allocation schemes were imposed, guaranteeing that energy usage would be determined by short-run political pressures rather than by long-run economic considerations. Relying on the private market for energy supply and allocation would have served us far better in the long run (and the short run as well) than did the government programs that exacerbated rather than moderated our energy problems.

And though major American industrial corporations have, over recent decades, behaved myopically, allowing their capital to become outdated and their ability to compete on world markets to erode, much of this can be explained by government-imposed distortions. Because of import restrictions, the US steel industry, for example, has not faced the intense competition that provides the best incentive to maintain productivity. Moreover, through the penalties of inflation and taxation, government policy has actively discouraged capital investment in basic industries. Yet advocates of a national industrial policy use market myopia as a justification for more government involvement in the economy.

The call by Robert Reich and others for more government control over investment funds is a guaranteed prescription for neglecting the long run. The political allocation of investment funds is sure to favor large firms with strong unions (such as Chrysler Corporation) over the small but innovative firms that, when allowed to compete in the private market for capital, provide much of our future productivity and employment.

Even in the environmental area where market decisions may seem to be least attuned to the long run, government solutions are suspect. Our waterways and airsheds that necessarily receive our waste products are not owned and controlled as private property. Therefore, as we would expect, in the absence of private property—recall the buffalo—people have no incentive to consider the long-run consequences of their decisions. As a result, many of our environmental resources are excessively used.

The opportunity exists for government action to moderate the harmful use of our environment to the long-run benefit of all. Unfortunately, special-interest politics often results in exactly the opposite. A coalition of eastern electric utilities and the United Mine Workers, for example, has successfully lobbied for legislation requiring expensive sulfur-removing scrubbers on all new power plants, not just ones that burn high-sulfur eastern coal. The result has been a competitive disadvantage for the cleaner low-sulfur western coal, higher electric rates for consumers—and in many cases more sulfur emissions into the atmosphere.

The Army Corps of Engineers builds dams whose costs greatly exceed their benefits without even considering the enormous environmental costs. Surely few environmentalists see the special-interest water projects that dot the landscape as examples of far-sighted political activity.

To take another example, the toxic waste tragedy at Love Canal did not result from the profiteering of Hooker Chemical and Plastics Corporation, as widely believed. It stemmed from the insistence, over Hooker's objection, by the school district in Niagara Falls, that land owned by Hooker be used to build a school. Hooker Chemical was worried about the long-run consequences of building a school and a housing project over a toxic waste dump; the school district was not!

Examples of political myopia abound, but the point by now is clear. Government is far from a flawless substitute for any market short-sightedness. And indeed, failures of the market are often *accentuated* by government attempts to correct them. At no time is this more true than when the complaint against the market is that profit-seeking business people shortchange the future. They are in fact the future's best hope. ◻

Dwight Lee is a research fellow at the Center for Study of Public Choice at George Mason University.

An Education in Wimpdom

BY RICHARD MITCHELL

If your request is related to religion, please provide evidence of your religious conviction, such as a letter from a church official, and a written explanation of the conflict between your reglious beliefs and public education.

It takes no special wisdom to see that wherever there is competition, there are peddlers of similar products. Breweries compete with each other, not with IBM. And when the products are in no important way to be distinguished from each other, the competition assumes not only a special ferocity, but also a special flavor. It becomes affective, seeking not the informed consent of the customer, but rather the approbation of his sentiments. The conflict between public education and religious, or even "reglious," education is thus clarified.

Those agencies are different only in detail; in principle, not at all. For each, "education" is a certain road to a certain city, rather than a way of journeying and of founding a city. Each has its graven tablet of indisputable notions; each claims special knowledge and powers not available to the infidel; and each deems itself worthy of consideration and respect as a High Calling.

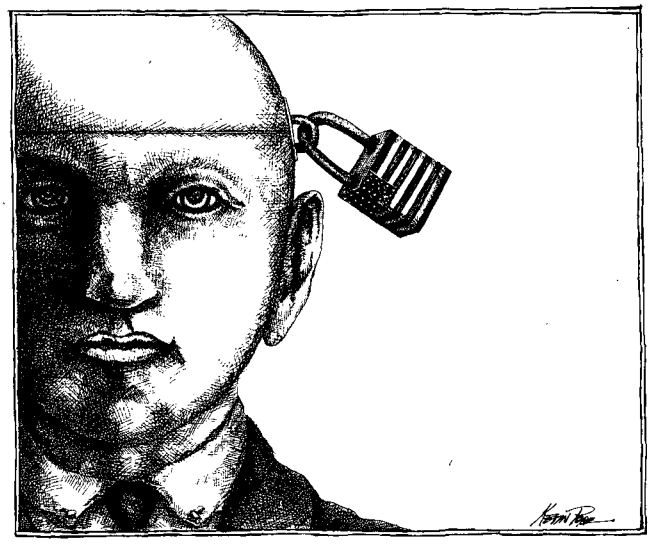
As you can see from the citation above, however, they do not compete on an equal footing. One of them is required by law to justify itself before the other, and the other is permitted by law to justify itself only in its own courts.

That passage comes from a form that you would have to fill in if you lived in Columbus, Ohio, and wanted to "educate" your children at home.

Maybe there is, somewhere in our land, an obsequious wimp who will comply with that outrageous requirement, who will humbly solicit and submit the testimony of a "church official" as to the existence of his religious convictions. Let's hope there aren't two. There is only one proper response that an American can make when an agency of government asks about his inner life. It is, in its only polite version: None of your damned business, buster.

There are, however and alas, more than two obsequious wimps.

This is the most calamitous consequence of what we have been trained to call "public education." Its very existence, maintained by laws beyond counting, has brought us gradually into an almost universal, obsequious wimpdom.



We actually *believe* that an agency of government should be empowered both to enquire into and to modify the inner life of the individual mind. We not only wear that chain, but we wear it proudly, supposing it the special virtue of "a free country" that its children are required by law to submit their minds to the scrutiny of state workers whose job it is to do something to those minds. As in Albania. It is lucky for most of us, especially those who use his name to justify such a system, that Jefferson is dead.

The makers of our Constitution were not a congregation of religious enthusiasts. If they protected religion from the intrusive propensities of all government and its functionaries, it was not because they loved churches and doctrines. It was because they loved freedom, and hated tyranny, especially tyranny over the mind. They knew that religion cannot exist except in a mind. The First Amendment protects not churches, but individuals, minds. It affirms that the inner life of individuals is none of government's damned business.

Consider these words of Madison. He is speaking, in 1789, in the first Congress, against a grant of subsidy to certain farmers and fishermen, an act that would, he said, "subvert the very foundations, and transmute the very nature of the limited government established by the people of America." He warns of consequences of the worst kind:

> If Congress can employ money indefinitely to the general welfare, they may take the care of religion into their own hands; they may appoint teachers in every state, county, and parish, and pay them out of the public treasury; they may take into their own hands the education of children, establishing in like manner schools throughout the Union.

His chosen examples are remarkably interesting. How can we not find in his argument, which did prevail, an acknowledged abhorrence of the very idea of education by government? If school and state were not constitutionally separated by those who made the Republic, it must have been because they thought better of us than we have deserved.

So now we have what we deserve—legions of insolent twerps who can require of us an accounting of "reglious" beliefs, accompanied by written corroboration from an "official."

And of those twerps, we can require no accounting. They *are* official. They don't have to understand the meaning of what they do, which is, in any case, never the result of a mind's understanding, but only an implementation of policy.

In our land there are many cults, many belief systems, many congregations united by a collective faith in the undemonstrable. Only one has a charter from the state, a license to take into custody all our children and do to their minds whatever its latest belief requires.

That, too, we deserve. Is there some way for us to stop deserving it?

Richard Mitchell is the author of Less Than Words Can Say *and the publisher of the* Underground Grammarian, *from which this essay is adapted.*

Illustration by Kevin Pope

Profits on a Pittance

BY MARK SKOUSEN

For all of you who can barely afford a $24 subscription to REASON, here's some advice you can really use—how to start accumulating wealth from scratch, even if you have no savings or are heavily in debt. I call it "no-minimum investing."

First, I'll show you how to invest in money-market funds, aggressive growth stocks, gold and silver, and other exciting investments, starting with just the money in your wallet, whether you have $10 or $100. Then I'll show you an easy, painless way to add to your savings or investments without sacrificing your standard of living.

• *Interest on checking accounts.* Many people continue to use ordinary checking accounts or low-paying passbook accounts, because they don't have several thousand dollars to open a money-market account. But there's no excuse today. Surprisingly, there are two money-market funds that impose *no minimum*: The CAM Fund (P.O. Box 1984, Valley Forge, PA 19481; 800/423-2345 or, in Pennsylvania, 800/362-7400), and First Trust of Chicago (110 North Franklin St., Chicago, IL 60606, 800/621-4770 or, in Illinois, 312/781-9490).

The CAM Fund specializes in small investors and small businesses. It has no-minimum checking, so you can use your account like a normal checking account (most money funds require a $500 minimum to write a check).

CAM also sends you a unique monthly statement that works as an automatic bookkeeper. When you write a check, you mark a code that tells the fund's computer how to list the expenditure. Categories include auto expenses, clothing, utilities, taxes, etc. There are also 10 optional codes to which you can assign your own categories.

First Trust of Chicago offers three money funds: tax-free investments (such as municipal bonds), government-only investments (primarily US Treasury bills), and a general fund. The minimum for which a check may be written is $100.

• *Aggressive growth stocks.* You conservative tortoises will probably want to keep most or all of your savings in a money-market fund, earning a safe 10 percent. When interest rates rise, your yield will increase while your principal is protected (unlike bonds, which fall in value when interest rates rise). But some of you may have the speculative hare in you and will want to try your hand in stocks, precious metals, or real estate.

The best way for the beginner to speculate in the stock market is through "no-load" mutual funds. These are funds that require a low minimum and charge no commissions. One of the most successful no-load funds has absolutely no minimum: Twentieth Century Select Investors (605 W. 47th St., Kansas City, MO 64112; 816/531-5575). This fund invests in small growth companies that are likely to outperform the general stock market. It has been listed frequently on the *Forbes* honor roll, averaging an annual return of 30.5 percent during 1974-84.

Unfortunately, Twentieth Century does not permit you to invest or withdraw your funds by telephone, only by mail. However, there are hundreds of no-load funds similar to Twentieth Century that permit "telephone switching." (For a list, send $2 to The Directory of No-load Mutual Funds, No-load Mutual Fund Association, Inc., 11 Penn Plaza, New York, NY 10001.) Or you may wish to open an account with the discount brokerage Charles Schwab & Co., which trades no-load funds at very low commissions (check your local listings, or call 800/648-5300).

• *Gold and silver.* Many free-market advocates are partial to gold and silver as a speculation, but where can you buy a single coin without paying a huge commission? Fortunately, there are some sources. Merrill Lynch, for example, has its Wealthbuilders program in gold and silver bullion, and the minimum purchase is only $100. The commission is a reasonable 6 percent, which decreases if you buy more. (Check your local listings, or call 800/221-2856.)

Auric United Corporation, a small coin dealer associated with the well-known gold fund United Services Gold Shares, offers special rates for small coin investors. You can buy a *single* gold coin or a roll of silver dimes at low commissions. The firm also offers a coin-of-the-month plan, so you can buy on a regular basis. Auric United can be reached at P.O. Box 29568, San Antonio, TX 78229; 800/531-7171 or 512/696-6209.

• *Real estate.* Much publicity has surrounded the idea of buying rental properties for "nothing down." But the new investor should be cautious about overloading himself with debt in an illiquid investment. I suggest you start modestly.

The best advice for the small investor comes from John Schaub, who specializes in moderately priced single-family homes. His unique system will show you how to buy one rental house a year with less than 10 percent down and no negative cash flow (that is, the rental income is equal to or higher than the mortgage and interest payments). For an excellent, comprehensive introduction, get John Schaub's cassette tape interview, "Big Money on Little Deals" ($5 to Dominion Tapes, P.O. Box 8175, Tyler, TX 75711).

• *Automatic wealth-builder.* The secret to building financial independence does not just involve investing wisely. If you only have $100 to invest, and you make 100 percent profits, you still only have $200 to show for your efforts. The key ingredient is to have a consistent savings plan, so that you add to your investment capital on a regular basis.

The most successful entrepreneurs are those who put everything they can into their business or investment. They invest every bit of their surplus capital to get ahead.

The easiest, most painless way to build your investment capital is to have a percentage of your income *automatically* put aside for you each month. Many mutual funds, including those mentioned above, offer "automatic investment plans." They will arrange with your bank to withdraw a specified amount of money every month from your checking account—money that will be put to work for you automatically and painlessly.

I know this system works, because I have been using it for years. You will be amazed how much money you have saved and invested in a few years. This systematic approach to saving also gives you the freedom to spend, knowing that your financial future is secure.

Mark Skousen is the editor and publisher of Forecasts & Strategies *newsletter and the author of 10 books. He and his family are currently living in the Bahamas.*

Incorporate Yourself— and discover America's most powerful tax shelter

"About 50,000 people a month are incorporating themselves and gaining tax benefits others only dream about. And it's remarkably easy to do..." by Ted Nicholas

Imagine having all your family's medical and dental bills paid for *tax-free*. Imagine owning two family cars *tax-free*. Imagine having your hobby expenses paid for *tax-free*. And how about tax-free life, health and income-protection insurance? And would you enjoy tax-free trips . . . a tax-free boat, plane or hunting lodge . . . or tax-free meals at fine restaurants?

These are just some of the remarkable tax advantages and fringe benefits that can be yours through the most powerful tax shelter in America—*owning your own corporation.*

You see, to encourage small business, Congress has filled the tax laws with loopholes that richly reward those who form small corporations. As a result, more than 50,000 people start corporations *each month.* 98% are small businesses, often one-man operations.

These people have discovered that it's *incredibly easy* to start your own corporation and claim a vast array of tax-free privileges. Indeed, you can start your own corporation simply by filling out a one-page form and mailing it to the proper agency. You don't need employees. You don't need a lawyer. You don't need an office or a big company. You can do it with *zero* capital, without changing your full-time job or even leaving home! I know because I've helped thousands do it safely, legally and ethically.

My name is Ted Nicholas. Ten years ago, after successfully launching 18 corporations myself, I wrote a book called *"How to Form Your Own Corporation With out a Lawyer for Under $50."* It's become one of the best-selling business books of all time, helping more than 650,000 to incorporate easily, at minimum expense.

Now I've completely revised the book to show the latest tax advantages and demonstrate how easily *you* can form your own corporation and partake of the enormous tax benefits.

All you need is right in this handsome, oversized, 8½ x 11" book. It contains tear-out forms. Just fill them in according to my simple, step-by-step instructions, and send them in. Right off, you'll save from $300 to $2,000 in legal fees and, in a few days, you'll have your own, legally-recognized corporation. And you can begin to take advantage of a host of benefits like these . . .

Tax-Free Cars, boat, plane, hunting lodge . . . tax-free travel, entertainment and gifts . . . tax-free office equipment, furniture, books—all can be yours through your own corporation.

Tax-Free Medical and Dental Plan. By filing another, one-page form included in the book, you can legally write off 100% of your family's medical, dental and pharmaceutical expenses, even vitamins and psychiatrist's visits.

Lower Tax Rates. In a corporation, your tax rate on your first $25,000 is only 15%. On income of $25,000 to $50,000, rates are only 18%. Compare that to what you're paying now.

Pension and Profit-Sharing Plans are far more generous to anyone who incorporates. You can shelter much higher amounts, and it all compounds *tax-free.* Unlike IRA or Keogh plans, you can borrow your funds back whenever you want.

Tax-Favored Dividends. Your corporation can own shares in another corporation and receive dividends that are *85% tax-free.*

Limited Liability. In a partnership or proprietorship, your personal liability is unlimited—quite dangerous in an age when people routinely sue for astronomical sums. You're also *personally* liable for the blunders of a partner. With a corporation, your risk is strictly limited to whatever you leave in the corporation. That can be *zero.* Your home, furniture, pension plan, car, and savings are never at risk.

And there are many other advantages my book can make possible for you, including tax-free health, life and income-protection insurance . . . tax-free financial and legal counsel . . . tax-free athletic and health club memberships . . . tax-free day care . . . no-interest loans . . . tax-free tuition reimbursement for you or your children . . . tax-free theater and sports tickets . . . write-offs for an office in your home . . . easier transfer of your company's ownership when you sell . . . estate planning advantages and much more.

My book also reviews the pros and cons of *different types* of corporations, including Subchapter S, non-profit and professional. . . . How to operate a corporation *anonymously* . . . How to turn an *existing* business into a corporation

You'll also see how to sell stock in your corporation so that it's *tax deductible* to investors in case of loss. This makes your stock much more attractive to potential backers.

Plus, you'll get a complete set of tear-out forms, including a Certificate of Incorporation . . . Minutes and By-Laws . . . everything you need.

If you've dreamed of having your own business, but don't know where to start . . . if you have an idea for a sideline, mail order or weekend venture . . . if you're a professional, consultant, freelancer, partner or small business proprietor . . . if you want to start *several* companies without getting soaked with legal fees . . . or if you're simply fed up with oppressive taxes and want a safe, legal way to slash them, *this is the book you have been waiting for.*

As a bonus for ordering now, I'll also send you, absolutely free, a copy of an exclusive report called, *"The Income Plan"* (normally $9.95). It tells how to convert almost any job into your own corporation and increase your take-home pay by up to 40% without a salary increase. For employers, the plan shows how to operate your business with *independent contractors* rather than employees. This eliminates payroll records and saves you thousands in taxes each year. It complies with all I.R.S. guidelines. The report also lists 277 frequently-overlooked ways to reduce your taxes.

Finally, let me say that I personally guarantee your purchase in the fairest way I know. If you feel my book is not all I've described, return it undamaged within one month and I'll promptly refund your money with no questions asked. In any case, keep the bonus report, a $9.95 value, free of charge for your trouble.

Please rush me a copy of *"How to Form Your Own Corporation Without a Lawyer for Under $50,"* by Ted Nicholas, at $19.95 complete. I have up to 30 days to look it over. If, for any reason, I don't feel it's for me, I can return it for a full, prompt refund. In any case, the bonus *"Income Plan,"* will be mine to keep free.

☐ Enclosed is my check
Please charge my ☐ American Express ☐ Master Charge ☐ Visa ☐ Diners Club

Card No. _____ Exp. Date _____

Signature (Charges Only) _____

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Speaker for the Market

BY PATRICK COX

Several years ago, President Ford's economic advisor, Alan Greenspan, was scheduled to address a gathering of the Bank Administration Institute in Hawaii. The day before the event, he called the National Speakers Bureau to cancel because of illness.

Faced with the potential disaster, the president of the bureau sent a replacement to the Honolulu meeting. The bankers in attendance had expected Greenspan, so the first disappointment of their day was news that he was not coming. Then they learned that an economics professor from Boise State University in Idaho was taking his place. That one elicited real groans.

Given the situation, the unknown Barry Asmus would have been fortunate to leave the gathering with even a shred of his dignity intact. But that was not the way the day turned out. Asmus began to talk about the American tradition of free enterprise and individual responsibility—but he did not give the group a simple pep talk. He told them that bankers supported capitalism except when it came to regulations that protected their own industry. Asmus said America is full of people who claim, "I am a capitalist, but. . ."—and we are drowning in a sea of buts.

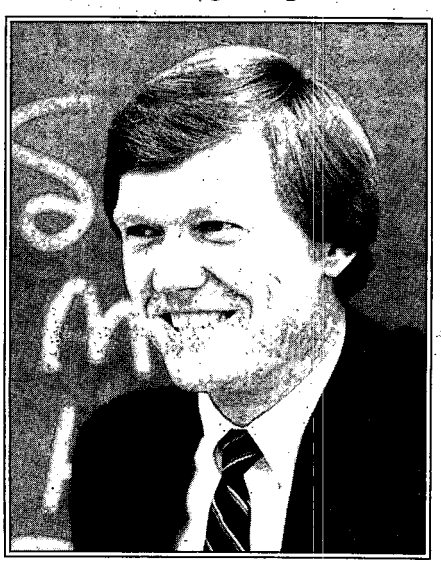
Asmus took chances that day. As his speech came to a close, he was unsure about his reception. The standing ovation that shook the room at the close of his address surprised him. And the standing ovations have not ended.

Asmus's reputation as a dynamic defender of capitalism who is unafraid to declaim against his audience's own contribution to capitalism's erosion has spread. Today, he is the most-requested speaker with the National Speakers Bureau, an organization that handles political and journalistic celebrities like David Brinkley, George Will, Charles Kuralt, Norman Vincent Peale, and Arthur Laffer.

Asmus is, without a doubt, an extraordinary spokesperson for the market system. His enthusiasm for the American tradition of individual liberty is absolutely infectious. He loves America and its heritage of economic and civil freedom. But he does not simply stir up patriotism. His analysis of the situation today is honest, perhaps even brutal.

He has lectured dairy farmers about the evils of milk-price supports. Tobacco growers have listened to him condemn the government protections they enjoy, and teachers have heard him tear apart teachers' unions.

Asmus turns down many more engagements than he accepts for reasons that include his son's baseball games and his daughter's birthday. Last year, he moved to Phoenix and gave up teaching in the university to concentrate on teaching the professional groups that call on his services. But Asmus is still an educator. He still gives reading assignments and homework to those he lectures. And surprisingly, Asmus criticizes organizations for their own policies, yet he makes friends in the process.



BARRY ASMUS

A growing number of organizations are attempting to defend the free market, but without Asmus's evident popularity. Asmus thinks it may have something to do with the nonprofit status adopted by most free-market advocacy organizations. "Capitalism," he says, "is about providing a product that people are willing to pay for." In keeping with that view, his own organization, the three-year-old American Studies Institute, is a profit-making entity that sells tapes and books and provides lectures for a fee.

Asmus has written and cowritten a number of books, including *To Slay a Giant* with former Idaho official Jerry Hill. The book, a combination of poems and economic analysis, was published by Caxton Press. Another book was *Supermyths*, a collection of "x-rated" popular misconceptions about the way the economy works. He has also helped script World Research, Inc.'s "Chickenomics" series of free-market films that star the San Diego Padres' chicken mascot. He hopes that his most recent and ambitious book, *Crossroads: The Great American Experiment—The Rise, Decline, and Restoration of Freedom and the Market Economy*, written with economist Donald Billings and published last year by University Press of America, will sell well.

Asmus is 42, but he seems to be much younger. He studied economics at Colorado State University and finished his Ph.D. at Montana State University. In those days, he was a utopian socialist who came home to tell his father that "if he had any compassion, he would sell his farm and his car to help the poor." His father's response was, "Get your butt out of here."

In 1972, Asmus went to teach at Boise State University (BSU). By then he had changed from a "knee-jerk liberal" to what he now calls a "broken-hearted liberal," one who knows that big government welfare can't work but is unwilling to give up on it for the sake of principle.

In the summer of '74, Asmus read his first moral defense of capitalism in Henry Hazlitt's *The Foundations of Morality* and was forced to do the full about-face he had resisted. Asmus said it was a slow intellectual trip he made from being a liberal to neoconservatism to where he is today, "somewhere between the supply-siders and the libertarians."

People are paying for Asmus's services, but he still seems surprised by it all. Brian Palmer of the National Speakers Bureau laughs at Asmus's surprise. He says, "Barry is having a tremendous impact on his audiences. It's not uncommon for those who hear him to say that he has changed the way they look at the world. But when Asmus looks around at his success, he usually says, 'Gosh!' "

Patrick Cox is a free-lance writer.

Life & Liberty

A Satirist's Lament

By Stephen G. Barone

I write satires. I like to. I send a lot of them to a lot of different magazines. Many of them come back. Others, much to my pleasure, get printed—they even *pay* me to print them.

This is not a bad way to earn money. Oh, it won't put the kids through college. But it supplements the other, more pedestrian means at my disposal, by which I meet the monthly rent and satisfy the installments on my Underwood.

There is a problem though: lately, there's been a bulge on the supply side of satire. And as with most market distortions, it is directly traceable to government.

You see, it's become harder and harder, over the years, to sell a piece of satire. This is because life *itself* has become so much of a satire that there is hardly any need left for writers of my ilk.

Allow me an analogy: Years ago, you needed a specialist to run a computer. Nowadays, the things have become so simple that our local elementary school has legions of second-graders who can make an Apple II do their will. Likewise, the state of the world has become so absurd that *anyone* can now be a satirist.

It used to be that it took some knowledge of form, structure, style, irony, and symbolism to be satiric. This is no more the case. Face it—any mackerel today could get up in front of 50 people, say "Post Office," and get big laughs. If you don't believe me, just try it. In fact, it's precisely government agencies that have made it hardest for us.

Imagine your old Aunt Ethel, who never in her life has been able to tell a joke to its completion. Either she remembers just the lead-in or just the punch line, but never *both* at the same time and place. No Joan Rivers, she. Further, imagine she's at some shindig for the geriatric set, when one of her cronies laments a great fear of airplane travel. Says Aunt Ethel, "Why don't you take Amtrak?" Boom! She gets big laughs. No less than any laughs I might get by pounding on the Underwood all night long.

It's depressing. And a depressed writer is seldom a funny writer (except in the case of Dostoevski, who, I think, was really having a lot of fun at the expense of his readership).

Let's imagine that you go to a party and things are getting pretty dull. You've got your back to the planter. You're surrounded by a little group, their conversation revolving around our diseased economy. All is woe. Someone asks where he might keep what little money he has to protect it from inflation. Another frets about the lack of a strong gold standard. Yet another moans that the government will surely confiscate whatever he might be able to put aside, anyway. In the old days, this would be a fecund situation which could engender decent, if not *great*, satire. *But noooooo!*

My own tax dollars are being used to create giant departments, agencies, bureaus, and projects, all of them huge jokes.

Before you can collect your hat and coat and make tracks to the nearest word processor, some cost accountant with orthopedic Guccis and a big string of spinach attached to his left incisor says, "Well, there's always Social Security!"—and the place breaks up as if he were Alan King doing another number on his poor, abused wife. Where does that leave us, the satirists?

Point is, when it comes to satire, the government is in direct and unfair competition with the private sector. And that's me. My own tax dollars are being used to create and maintain giant departments, agencies, bureaus, commissions, and projects, all of them huge jokes by anyone's estimation.

Just mention OSHA and people begin to giggle. Allude to a snail darter and people are inclined to believe you're a great wit. Remember Earl Butz? Just say the guy's name and people smile that smile they usually reserve for Mickey Mouse cartoons. When someone asks your kid, "What do you want to be when you grow up?" teach him to say, "Administrator of EPA." He'll grow in confidence as he basks in the easy laughter of those he meets.

Where is the skill in all this? What is the challenge? How might I ply my trade, sell my wares, if government has made the world a satire unto itself?

I am an honest businessman who is, quite simply, getting run out of business. If I were a lesser person, I'd find a way to *protect* myself. I'd lobby for my own agency. I'd be Secretary of Satire—or Humor Czar. Perhaps head of a Select Commission on Chuckling. I don't know. But when government got into this thing, I should have gotten in at the bottom.

Stephen Barone is a school psychologist, musician, electrician, and free-lance writer.

The Real Reason to Gripe about TV Ads

By Tibor R. Machan

A common complaint about our commercial culture focuses on advertising—on the many vapid, tasteless (even downright misleading) ads that seem constantly to bombard our eyes and ears as we navigate this most opulent society ever. Television ads are the favorite target of this sport: after all, we can avoid almost all of the ads in magazines, newspapers, billboards, flyers, junk mail, and the rest. But ducking TV ads requires extra effort.

As we read *Time*, *Newsweek*, *People*, the *New Yorker*, or even the *Journal of the American Medical Association*, the advertisements are displayed for us to notice only if we really care to. With no interest in them, we simply turn a leaf and away they go. But as we watch TV, our attention is periodically interrupted by some commercial—which, for the most part, has nothing whatsoever to do with our concerns—and we must wait for the ad to end before we can get back to

our program. No simple flip of a page here to get rid of the annoyance.

Consider it for a moment. If your child demands that you pay attention to him or her, you can take it only so often. After several such interruptions, even the most considerate parent begins to let out rather noticeable sighs of exasperation. As I sit writing this, I can easily stop and resume my work after my child has been satisfied. Yet after her fourth effort to cajole some candy or other form of entertainment from me, I am at wits' end.

TV viewers must put up with this kind of thing all the time—not from their children but from uninvited strangers. Granted, most of us realize this is part of the price for having television programs. But such abstract convictions do not carry much weight when, at some intriguing moment, the man from Glad, the Shell answer man, or the spiffy IBM executive jumps into your line of vision with a 30-second piece of often irrelevant monologue.

This cannot be avoided, perhaps, but why on earth should it be welcome? Oh, sure, it pays for the program. But that is like praising dishwashing because it makes for cleaner dishes at the next meal. Or the pain of a dentist's needle because it prevents the later pain of the drill. These considerations may rationalize the nuisance, but they do not make the immediate experience any more pleasant. And in the case of TV commercials, such palliatives do not leave a favorable impression of what advertising symbolizes—namely, trade. And because of that symbolic connection, the general public has come to view broadcast advertising as the epitome of capitalism—and, for many, as the basis for a moral indictment of capitalism.

Intimate contact with an economic system that engenders the annoyance of insipid TV ads can certainly drain one's enthusiasm for that system. Never mind that it is the most productive, most helpful, and most peaceful economic arrangement that human beings have managed to devise. Never mind that it has probably enabled people to live much longer than they used to (and *still* do under other economic systems). No—most of us have little time and patience to consider this pure, abstract stuff. What we *are* very well aware of is that those blokes in TV commercials are little more than irritants in our lives, especially when we are trying to relax and get away from it all.

This particular indictment of capitalism isn't very fair, and neither is it really accurate: for several reasons, the advertising we are familiar with through TV reflects a gross distortion of capitalism.

First, advertising is really nothing more than a specialized form of something we all do: boast. When we want a job, for instance, we advertise ourselves, try to sell ourselves to a prospective employer (the potential customer of our service). We do it when we display

ourselves for inspection in anything from commercial to romantic circumstances. But we view *that* as a private matter and okay as such. So here is our first unfairness: we complain about others boasting, while we ourselves do it much of the time (and indeed it is mostly fine that we do).

But there is another, less-obvious consideration. The electromagnetic spectrum, through which broadcast signals travel, is in the United States deemed "public property." The domestic airwaves were nationalized on the floor of the United States Senate in 1927, when the Federal Radio Commission—predecessor of the Federal Communications Commission—was established. These political agencies then proceeded to establish a system of assigning frequencies and licensing users. From then on, even beyond the time of the emergence of cable programming in 1948, domestic TV has been largely under the supervision of the federal government. Admittedly, this is still a system of greater liberties and more of a free market than the many government-*run* broadcast systems abroad. But, in fact, the TV networks do not own the frequencies over which they broadcast—and, for the most part, cannot *charge* viewers to receive broadcast signals.

Because of this extensive government regulation, TV broadcasting is an industry in which just a few large firms control the production of its wares: news, drama, comedy, documentaries—and, of course, advertising.

In order to stay in business, these large firms must find big advertisers who will pay the broadcasters to carry their ads to millions of viewers. And this immediately reduces diversity in broadcast commercials: it isn't that there is little variety of products, but broadcast ads must appeal to—*and* (it is hoped) not offend—millions of viewers.

If you think about it, this is mass marketing at its worst: such ads must appeal to the lowest common denominator in that large group, making sure that all those viewers are at least not offended by snobbery, special ethnic or professional appeals, and other messages directed at only a narrow segment of the audience. So these ads must be among the blandest things in our culture, matched perhaps only by grocery-store or elevator music—and TV programming itself! Inadvertently, TV ads become one of the most offensive elements of the culture, too, since most of us do think of ourselves as special and find such blandness insulting.

Advertising is part of capitalism, and it is largely a very good thing indeed: among other things, it helps inform us about the marketplace (albeit as only one of many information sources). But by intervening in the broadcast-TV market, the federal government has bred a clumsy TV oligopoly, and the often tasteless mass advertising that so crowds broadcast television is both broadcasters' and advertisers' rational response to that governmentally distorted market.

So the next time Mr. Whipple interrupts Dan Rather to lecture some unsuspecting shopper on the superior softness of Charmin, don't blame the toilet-paper vendor for this annoyance—blame the government.

Senior Editor Tibor Machan is a visiting professor of philosophy at the University of San Diego.

The Book Case

Man's Quest For Knowledge

The Discoverers
By Daniel J. Boorstin
New York: Random House
745 pp. $25.00

Reviewed by John Chamberlain

History is usually written in terms of the rise and fall of governments, the outcomes of battles, the ascendancy and decline of cultures. But Daniel Boorstin, the Librarian of Congress, has thrown all the conventional approaches away in his magnificent *The Discoverers*, which deals with the decisions of statesmen, warriors, and clerics only as they have served to twist the directions of Man, the Discoverer.

Boorstin is concerned with man's need to know what is "out there." He begins with the concept of time and its relationship to discovery. Time, Boorstin says, is "the most elusive and mysterious of the primitive dimensions of experience." When man made a living by hunting and gathering, he went to bed and got up with the sun. But agriculture created a need for calendars. When was the first frost to be expected? What about the coming of heavy rains? The Egyptians, who lived by the rhythms of the Nile River, had an early solar calendar. The Babylonians, by contrast, lived with the erratic moon.

It is here that the paradoxical nature of Boorstin's story becomes manifest. He is writing about man's effort to learn everything about the earth, its continents and seas, its buried past, and its position in the solar system and the cosmos. The telescope and the microscope are integral parts of the tale. So, too, is psychic man's effort to understand himself. But the "universal" quality of *The Discoverers* always gives way to the planet's division between East and West. It is symbolic that the Moslems stuck to the more erratic lunar calendar. The clock and the seven-day week were part of the Western "resort to calculation," which had less appeal to Eastern cultures. The clock itself was first used by monks to call them to prayers, but later the swing of the pendulum, which impressed Galileo, suggested a number of worldly uses for measurement. The clock made Western man a mechanic.

The little peninsula of Asia that we know as Europe became the seedbed of the "discoverers" by the indifference of the East. Boorstin asks himself some unfamiliar questions. Why didn't the Chinese discover Europe and America? Why didn't the Arabs circumnavigate Africa and the world? It is a curious fact that when Portugal's Prince Henry the Navigator was sending his ships inching down Africa's west coast, a Chinese eunuch admiral, Cheng Ho, had a navy that was unparalleled.

The Chinese navy had developed the idea of bulkheads to increase seaworthy qualities, and it used the compass. It had brought giraffes home to China from Africa, and it had ranged across the Indian Ocean as far south as Zanzibar on Africa's eastern coast. But it was all for show—the Ming dynasty emperors wanted nothing from the world other than homage. Hence the Chinese decision to call home their navy and to scrap their ships.

The world of Islam, on the other hand, never became consciously isolationist. But it had no need to go around Africa to reach the Strait of Gibraltar because, like the old lady who wouldn't leave Boston, it was "already there." It had closed out North Africa for its own uses in the eighth century.

Europe, however, was not "already there." Europe did have some contact with the Far East for a period when the Mongols controlled the overland route, the "old silk road," from the eastern Mediterranean to China. The Mongols didn't care for Christianity, but they were tolerant and permitted Western caravans to move. It wasn't until the Mongols were defeated that Marco Polo's Venetians were no longer welcome in the Far East. The Turkish capture of Constantinople in 1453 completed Europe's isolation.

But if the Chinese needed nothing, Europe needed pepper, and sought ways to end its isolation from the East. What followed was a "doubling of the world" as the great Western navigators, armed with the compass and the ability to plot longitude and latitude, hit the Indies by going west and rounded the Cape of Good Hope to cross an Indian Ocean that had been an Arab and Chinese sea.

Ptolemy's name is generally associated with a faulty view of the universe, but it was his map of the world that lured Columbus westward. Ptolemy had known the world was round. But he grossly underestimated its circumference. It was this error that made Columbus think he could reach Asia by a short voyage past the Azores and the Canary Islands.

The Portuguese, in their bid to reach India by going around the southern tip of Africa, had to contend with the myth of a vast obstructive southern continent usually displayed on maps as "unknown land according to Ptolemy." Bartholomeu Dias actually rounded the Cape of Good Hope by mistake—he had been blown far south and to the west in the Atlantic and was trying to correct his course by hitting Africa in the neighborhood of Angola. When he found himself at the entrance to the Indian Ocean he wanted to proceed. But his crew wouldn't hear of it, thus leaving that accomplishment for Vasco da Gama, who made it to India in the next expedition.

It was the West's ability to make instruments that opened the world to the discoveries of Galileo and Copernicus and led on to the world of Sir Isaac Newton. Nobody knows who invented eye glasses, but they were in use 300 years before the telescope. Galileo guessed that the "first inventor of the telescope was a simple spectacle maker who, handling by chance different forms of glasses, looked, also by chance, through two of them, one convex and the other concave, held at different distances from the eye, saw and noted the unexpected result." The telescope became one way of seeing the invisible; the microscope was another. Once the use of adjuncts to look outward and inward had become common, people were ready for the exploration of the body and, eventually, for

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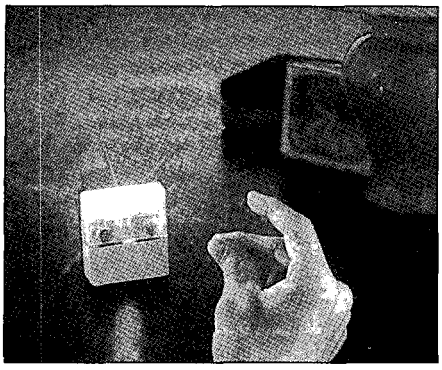

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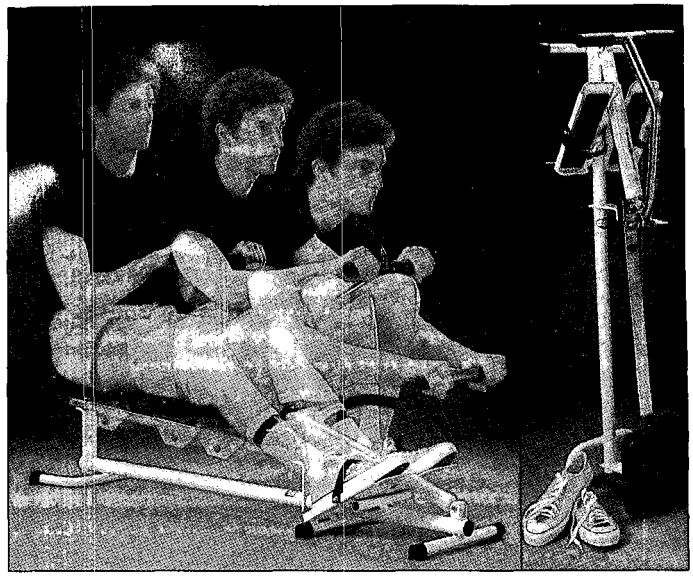

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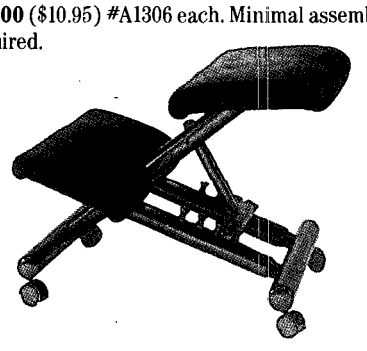
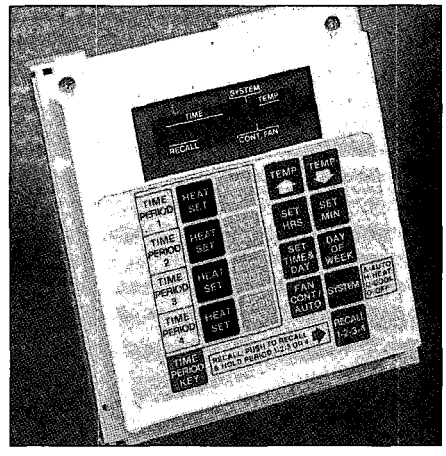


THERMOSTAT THAT THINKS YEAR-ROUND



The average homeowner can save up to 25% a year on home cooling costs, 30% a year on heating costs. What it requires is coordinating air cooling and heating with actual patterns of use. The best expert helper you can find for this temperature-management task is the computerized Jade Thermostat Control. A built-in microprocessor lets you program up to four different temperature settings a day with different schedules for weekdays and weekends. Combined heat/cool setting range extends from 35° to 98°. Easy manual override if your normal schedule is interrupted. Continuous time and temperature display. Homeowner installation takes approximately ½ hour (manufacturer offers toll-free advice if needed). Works with heat only and heat/cool systems, qualifies for Federal and State Energy Tax Credits, and costs **$99.00** ($4.95) #A1090. A companion model for two-stage heat pump installations costs **$159.00** ($5.95) #A1091.

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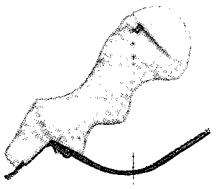

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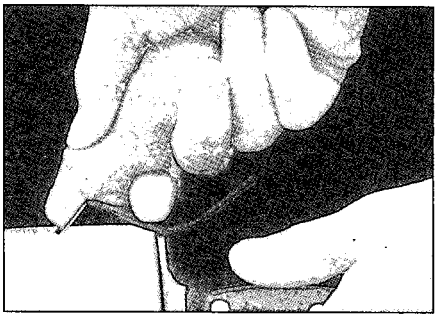

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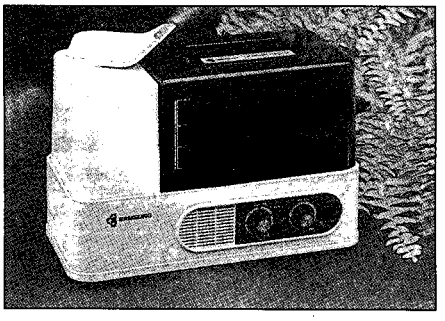

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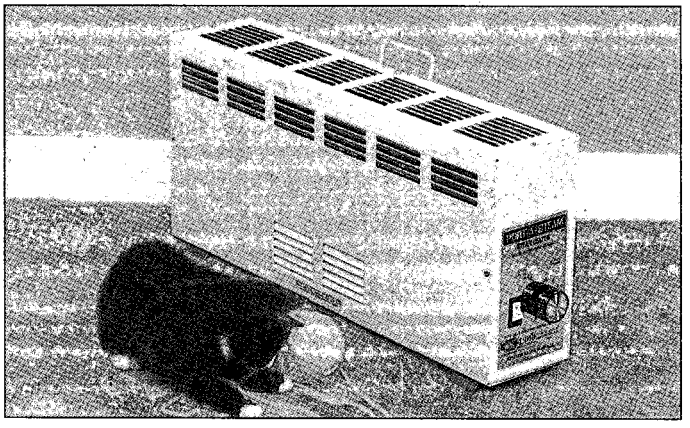

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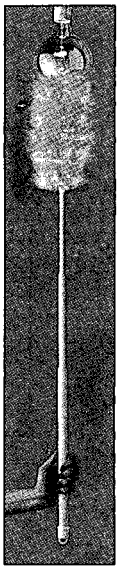

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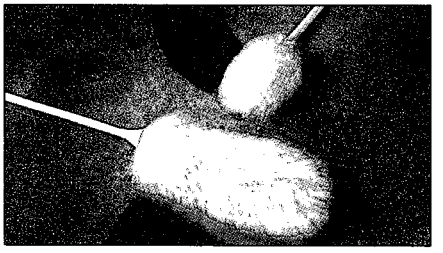

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the psychology of Sigmund Freud and Carl Jung.

I don't think Daniel Boorstin intended his book as a paean to the Western mind. He does his best to give China the credit for block printing, which made possible the flowering of Chinese culture, but the Western alphabets were more amenable to the use of movable type, which made the diffusion of knowledge so easy. The West became a literate society before the East. After Napoleon's departure from Egypt it was decades before the ruler Muhammad Ali and his successors could overcome the Islamic fear of the printing press. It wasn't until 1925 that a printed version of the Koran was officially published by the Egyptian government. The paradoxical element of Boorstin's world history—the division between East and West—persists even into the present. Boorstin now has hopes for a world literature. But for better or worse, television may get there first. And television is, of course, yet another example of Western discovery.

John Chamberlain is a syndicated columnist and the author of several books, including Farewell to Reform.

AUSTRIAN ECONOMICS

AT GEORGE MASON UNIVERSITY

Friedrich Hayek with faculty and students during recent visit to GMU.
Photo by John Hurley

THE UNIVERSITY. George Mason University is a rapidly growing university located 15 miles from Washington, D.C. 13,000 students attend George Mason, which offers undergraduate and graduate degrees in a number of fields.

THE ECONOMICS DEPARTMENT. The economics faculty is highly respected in both academic and business circles; it includes several renowned figures—such as James Buchanan, Gordon Tullock, and Walter Williams. The Center for the Study of Public Choice and The Center for the Study of Market Processes are both located at George Mason. Three academic journals—*Journal of Labor Research*, edited by James Bennett, *Public Choice*, edited by Gordon Tullock, and *The International Journal of Law and Economics*, edited by Charles Rowley—are published at the University.

AUSTRIAN ECONOMICS. The department offers a one-semester undergraduate course and a two-semester graduate course in Austrian economics. In addition, students and faculty meet in a weekly seminar to discuss subjects relevant to Austrian economics. George Mason University is one of the few institutions in the country to offer the opportunity for in-depth study of Austrian economics.

FOR FURTHER INFORMATION, Contact: *Professor Jack High, Department of Economics, George Mason University, 4400 University Drive, Fairfax, Virginia 22030, (703) 323-2746 or 323-3483*

War through A Child's Eyes

The Heroic Age
By Stratis Haviaris
New York: Simon and Schuster
352 pp. $15.95

Reviewed by Paul Hollander

The Heroic Age should appeal to American readers for several reasons. The first is that it is a moving, well-written and poetic novel that allows its young hero to emerge emotionally enhanced, if not exactly unscathed, from a long series of uncommon deprivations and degradations. It should also appeal to readers because of its powerful evocation of the rich texture of a largely unknown world: Greek life in war and peace, on the battlefields, in villages, islands, and prison camps. The novel brings before American readers settings and protagonists that are exotically foreign.

The events and participants of the Greek Civil War, which raged *after* World War II in the late 1940s, are a chapter of recent history barely known or remembered in the United States. Yet these events deserve to be better known and understood. While *The Heroic Age* (written by poet Stratis Haviaris) does not aim at filling gaps in our knowledge of contemporary history, it paints a vivid, convincing, and often chilling portrait of the passions of that war and the intensity of the conflict that must rank as one of the most brutal in the long list of not-so-minor wars that followed World War II.

Three factors intensified the hatreds of the combatants. First, it was a civil war. Civil wars by definition are always more divisive and the hostilities they inspire more intense. In such conflicts the conventional distinctions between soldier and civilian recede as the civilian population is pressured by each side to take a stand and render assistance. Second, in the Greek Civil War the Marxist-Leninist beliefs of the communist side assured that the conflict would acquire an ideological dimension. This, in turn, raised the stakes, since what was involved amounted to more than winning or losing battles, taking or losing ground: it was a matter of fighting for the creation of a new society as far as the rebels were concerned. Third, as with many other conflicts of our times, there was superpower backing and involvement from the begin-

ning, with the United States supporting the government and the Soviet Union and its allies the guerrillas. This, too, intensified and prolonged the conflict as these powers provided many of the resources, weapons, and advisors that enlarged the scope of the military operations and sustained them over a longer period of time.

While *The Heroic Age* is basically a poetic, apolitical evocation of the horrors of war as seen through the eyes of a child (and adolescent), the author has a bit of a political axe to grind. This manifests itself in the way the sufferings depicted are apportioned. Perhaps it is more fitting and appropriate to sympathize with the vanquished than with the victor, especially in a book inspired and permeated by poetic sensibilities. Such a partisanship is irrelevant to the literary merits of the novel. But the uneven emphasis given to portrayals of victimization and its increasingly predictable character does create a problem. Readers are likely to conclude that the forces of the Greek government had a near-monopoly on cruelty, brutality, and inhumanity—since these are the incidents the author dwells on. In fact, the historical record is somewhat different, as, for example, is revealed in a recent nonfiction work by another Greek author who traced the circumstances surrounding the murder of his mother by the guerrillas.

The hero of the novel, a boy in his early teens, ends up more or less fortuitously among the guerrillas and spends some harrowing months with them while they are besieged and ultimately destroyed in their underground fortifications in the Grammos mountains. The author's sympathies lie with the rebels, portrayed as young, dedicated, idealistic, and faced with a more-powerful, better-equipped enemy (the Greek armed forces) that are, in turn, backed by the overwhelming power of the United States. At the same time, the author appears to disassociate the rebels and their praiseworthy qualities from the Communist Party. While the former are selfless and heroic, the Communist Party and its functionaries are often depicted with sarcasm, their heavy-handed rhetoric ridiculed, their policies questioned. In particular, the closure of the Yugoslav border by Tito deprived the guerrillas of sanctuary and support and amounted to their betrayal.

Perhaps the book should not be viewed primarily as a political novel but as one that seeks to provide a more timeless record of the potentials for both evil and good that human beings can display under uncommonly arduous conditions. It is a novel that brings the dehumanization attendant upon war into particularly sharp focus as it is experienced and recounted by a child without home or parents or an understanding of the events he witnesses. The principal lesson life taught the narrator was "how not to cry in front of others but to wait for when I could be all alone, and how to endure pain without complaining."

A major experience and preoccupation of these children was hunger. In their wandering around the countryside, "we took care not to be seen by peasants though we always envied them for having a house and a bowl of soup on the table." In their "re-education" prison camp their rations consisted "of no more than a cup of black-eyed bean soup and a piece of dried bread for dinner. The Sunday Special was to be a cup of navy beans and three olives each." At the end of the war the narrator and his group are described as "a pile of bones wrapped in stained yellow skin. We had no cheeks,

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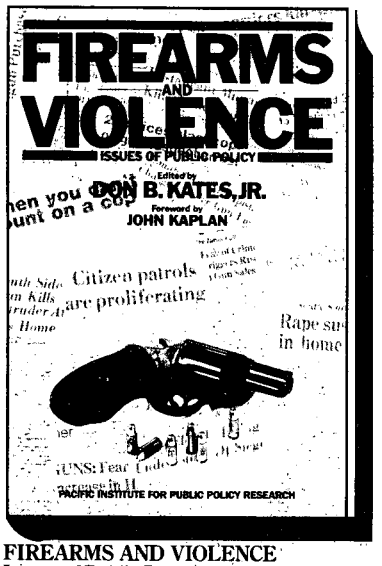

FIREARMS AND VIOLENCE
Issues of Public Policy
Edited by DON B. KATES, JR.
Foreword by JOHN KAPLAN

The continuing escalation of violent crime in the United States has again focused public interest on gun control issues. *Firearms and Violence* provides a frank and well-documented discussion of this bitterly controversial subject, with topics ranging from a comprehensive analysis of the underlying assumptions of gun controls to an in-depth examination of constitutional guarantees for and impediments against effective firearms legislation. *Firearms and Violence* finds that gun controls are ineffective in reducing crime, and that gun prohibition produces an increasingly violent, crime-prone society, to the particular detriment of minorities and the disadvantaged. Instead, the problem of crime will only be resolved through remedying fundamental social, economic, and political factors involved.

"Kates et al. have produced a provocative and powerful volume."
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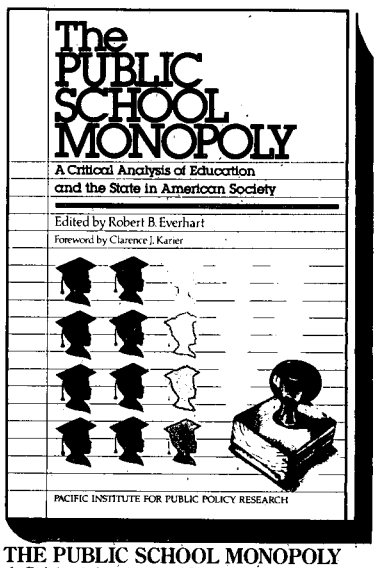

THE PUBLIC SCHOOL MONOPOLY
A Critical Analysis of Education and the State in American Society
Edited by ROBERT B. EVERHART
Foreword by CLARENCE J. KARIER

The escalating problems of public elementary and secondary education have created the widely recognized need to critically reassess the public school system. This comprehensive book examines the relationship between schooling, education, and the state and how the state, through the regulation of primary and secondary schooling in the United States, restricts educational practice to an extent that is detrimental to the general public and especially to minorities and the disadvantaged. The contributions to this volume are diverse in content and approach, and range from left to right politically in their points of view. Together they provide a unified understanding of the many problems in education and offer new directions for constructive policy reform.

"The Public School Monopoly *is at once comprehensive, scholarly, and deeply provocative. It is by far the most thoughtful examination of the political state and its monopolistic hold on education in the United States that I have ever read.*"
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nor stomachs and buttocks—just skulls, cheekbones, rib cages, kneecaps and shins...." At one point, earlier in their wandering in the countryside, they come upon a tethered mule with baskets on each side; peeking in them they discover "the severed heads of four or five young men and women."

Despite such horrendous experiences and deprivations, these children and adolescents avoid becoming a bunch of little wild animals along the lines presented, for example, in William Golding's *The Lord of the Flies.* Moreover, their solidarity and affection for one another is quite believable. Thus, despite its repeated depiction of appalling pain and suffering, the novel belongs to the genre of writings that seek to convey that it is the simple, instinctive goodness of ordinary people that ultimately triumphs over evil (or at least provides a hopeful counterforce to it). It is this goodness that can counter the contrived, abstract schemes and sociopolitical straitjackets that politicians, power-seekers, ideologues, and bureaucrats seek to impose on groups or entire societies.

Understandably enough, the author harbors a deep contempt for politics and especially the obscurantist jargon of political rhetoric and propaganda. For instance, he writes:

> The occupation had been over for more than three years, but the civil war still rages. There were new massacres; more destruction in the name of freedom, in the name of justice, in the name of honor.... Terror, betrayal, and murder by the rightist Nationalists and leftist partisans....
>
> Now the Americans were all over the place...recruiting Nazi collaborators who had experience in tracking down the Reds...helping the King and Queen to save what was left of the kingdom, to save Greece from the Greeks.

While in the caves with the guerrillas a young couple falls in love, prompting this protrayal of the Communist Party:

> In the next few days many more kids began to fall in love. It happened as though love were contagious, and the Party representative had to radio HQ that the crisis was getting out of hand, reaching epidemic proportions, undermining the morale of the revolutionary army. If love was a disease, no doubt the Party representatives were completely immune. HQ ordered "quick and decisive action to combat the outbreak by searing off all vestige of this bourgeois affliction."

At the same time, references to Greece after the civil war as having been "rescued from the crooked talons of Communism" suggest that Haviaris was far from overjoyed by the defeat of the guerrilla forces and their communist organizers and leaders.

Still, the tale ends on a more-positive note, at least in regard to the fate of the hero-narrator. Following his capture by the nationalists he is put into a brutal island camp where such youth were supposed to be reeducated through hard work, regimentation, and little food. Eventually a more humane officer is put in charge of the camp, the food improves, and the authorities in Athens order amnesty. The teenagers (as well as the younger children) are released and placed in the charge of families on a neighboring island where they are given jobs and are supposed to learn useful trades and become reintegrated into society. (About half of the book is devoted to the island camp and the subsequent release.) *The Heroic Age* ends with the hero meeting and loving an appealing young woman (much older than himself) and leaving behind the stress and turbulence of early youth compounded by a stormy period of history.

It may be noted in conclusion that apart from the central figure (the narrator) there is little sustained character development of the other actors in the story. They come and go, making relatively short appearances, and we learn little of their personalities, their past, or prospects.

Paul Hollander is a professor of sociology at the University of Massachusetts in Amherst and the author of several books, including Political Pilgrims *and* The Many Faces of Socialism.

Taking Ayn Rand Seriously

The Philosophic Thought of Ayn Rand
Edited by Douglas J. Den Uyl and Douglas B. Rasmussen
Urbana and Chicago: University of Illinois Press
235 pp. $21.95

Reviewed by Randall Dipert

For many, Ayn Rand is known as the writer of the bestselling novels *Atlas Shrugged* and *The Fountainhead,* which are still holding their own in bookstores 25 and 40 years after they were published. Rand's novels are novels of ideas—ideas about individual freedom that she developed not only through the genre of fiction but in numerous philosophic essays. Yet while Rand the novelist achieved enduring popularity, Rand the philosopher has gone not only unappreciated but largely unremarked.

Rand and her followers have seen her as a major philosopher—indeed, as the most significant philosopher since Aristotle. But professional philosophy, at least as it is practiced in the most-prestigious universities and disseminated in major journals and books, has only very rarely, if at all, rated her contributions worthy of a philosophy course, a scholarly essay, or a careful book review—not even a critical one.

This scorn for Rand's work in professional philosophy has resulted in what one might politely call an "unstable" situation. For Rand gives what appears to be philosophical argumentation for her claims about individualism and refers extensively and with some appropriateness to the ideas of Aristotle, a reputable philosopher by any standard. Furthermore, in the last 20 years, an increasing number of professionally trained philosophers (usually those attracted to some minimally coercive role for government activity) have read her work with interest, or with irritation, but not with the cozy condescension that has typified some of the least-glorious moments in recent intellectual history.

The publication of *The Philosophic Thought of Ayn Rand,* edited by Douglas J. Den Uyl and Douglas B. Rasmussen, marks a turning point in this lamentable state of affairs. This volume is a collection of original essays by reputable professional philosophers, some quite critical. Intended for a professional audience, it assesses Rand's contributions to three main areas of philosophy: epistemology (the theory of knowledge), ethics, and political philosophy.

Given its intellectual context sketched above, this collection can be evaluated by posing a single question: to what extent would reading the essays in this volume convince a professional philosopher that the work of Ayn Rand is worth taking seriously? Rand has never suffered a shortage of staunch defenders; on them, such a book would have little impact. The volume is not, and should not be, for those who require no further arguments or who wish to hear no critical exploration of Rand's ideas. It is for the professionals who have heretofore dismissed

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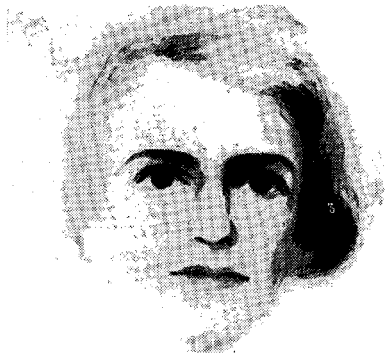

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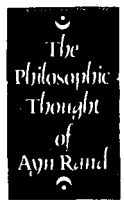

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Rand; and one must maintain that regardless of how brainwashed they might have been by anti-individualist ideas or how addicted to the intellectual soup kitchen of government grants, philosophers—at least insofar as they are rational animals—eventually will succumb to rational argument.

Some of the essays in the collection fulfill this mission extremely well. Wallace Matson's essay, "Rand on Concepts," includes a sparklingly clear picture of what Rand saw as key mistakes in the history of philosophy: most notably, an overconcern with individual consciousness; a lack of concern with an unyielding objective reality; and an obsession with an "inside-out" methodology, typified by the philosopher René Descartes's famous "I think, therefore I am," that moves cautiously from individual observations to objective statements.

Matson's essay is marred only near the end by his now old-fashioned attempt to give all mental notions a behavioral or linguistic account. Man as a rational, reflecting animal, and not merely as a "behaving" or "speaking" animal, lies at the heart of Rand's thought. So his proposal seems totally inappropriate.

The book also contains an especially elegant and insightful essay by Jack Wheeler (perhaps better-known to REASON readers for his worldwide reporting, but also a professional philosopher). In his comparison of Rand's ethical views with Aristotle's, though, Wheeler's essay is rather clearly intended for those at home in the relevant texts (and in Greek, in the case of Aristotle).

The more-critical essays of J. Charles King and Eric Mack probe deeply into Rand's best-known efforts in philosophy, namely, her defense of an ethics of rational egoism. King explores and eventually rejects Rand's puzzling claim that human beings must constantly choose between living and not living and that this is the ultimate source of all values. (This is also one of the main topics of the more-sympathetic essays by Den Uyl and Rasmussen and by Mack.)

Still more provocative is King's criticism of Rand's claim that "productive work is the central purpose of a rational man's life." King proposes—half seriously, one fears—that a good game of golf could be the central purpose of a rational man's life. He implies that playing golf is clearly not "productive." For such a casual counterexample to be effective against Rand, however, one has to take *productive* in its most literal sense. Rand clearly does not mean this: she glorifies both musical performers and philosophers, neither of whom "produce" anything in the narrow literal sense. Once the virtues and beauties of a good golf game are spelled out in more detail, it is far from clear that, like a good performance of a Beethoven sonata, it could *not* be the goal of a rational man.

In a careful and thoughtful essay on moral issues in Rand's theory of human rights, Eric Mack finds particularly problematic Rand's crucial maneuver from an egoistic characterization of the good human life to a need to respect the rights of others. This is a connection that in Rand's writings often seems to materialize out of thin air. Mack concludes that it is a substantially empirical issue whether "the best life course for a person is [one] congruent with his respect for others' rights."

What is it about Ayn Rand that has earned her such contempt among philosophers?

Yet Rand would surely balk at this. Most Randians follow her in strongly believing that the idea of respecting others' rights is somehow implicated in the very idea of a good human life. The most promising line of argument to connect the good (individual) life and a respect for others' rights might be that to engage in true social behavior—talking, listening, asking, obeying—is implicitly to consent to treating others as creatures with rights that should be respected. Tantalizingly close to this issue is German philosopher Immanuel Kant's central thesis that other human beings can never be treated as means to our own ends. There are, however, few philosophers toward whom Rand directed more scorn than she did toward Kant, and this has unfortunately made some of his wiser observations unusable for dogmatic Randians.

Robert Hollinger compares Rand's theory of knowledge with a number of philosophy's classical and contemporary theories. Although correctly highlighting the key Randian themes of rationality and objectivity, the essay includes far-fetched comparisons between, for example, the ideas of Rand and those of German philosophers Edmund Husserl and Martin Heidegger. One suspects from his sometimes annoying name-dropping that Hollinger's method is a reversal of "guilt by association"—namely, that by drawing connections between Rand and more-"reputable" philosophers, Rand's status is thereby enhanced. But the looseness of many of these connections, and the lack of selectivity in choosing philosophers "related" to Rand (so that he ends up including a philosopher sure to offend almost any reader) greatly weakens his points.

Other essays, most notably those of Antony Flew and Tibor Machan, are less closely connected to Rand's actual writing but rather are explorations of themes raised by her work. Flew's essay is so long on rhetoric and anecdotes, and so short on philosophical substance, that one wonders why it has been included in this collection. Machan's essay, on the other hand, raises some of the most interesting questions one can pose about Rand's works and the impact of rational individualism in general.

How is it, Machan wonders, that in popular discussion the "moral vision" of individualism tends to inspire so few, while various collectivist and conservative perspectives find constant—and perhaps increasing—approval? The answer surely lies in the more-satisfying "moral vision" that conservatives and collectivists have offered. They have been quick to promote the virtues of self-sacrifice, happiness, friendship, and love, whereas many individualists have written as if such values were unimportant (or "beside the point" of politics properly understood) or would automatically arise in an individualist utopia and are not worth discussing.

The most notable exception, as Machan remarks, is Rand herself—although her language in treating, for example, love as "trade" might initially seem somewhat unappetizing. Rand is one of the few individualist writers who have taken the high ground of a moral visionary, in showing how her vision of a society would promote admitted virtues. She has thus supplied individualism with

what is essential for its being an inspiring, and not merely a "correct," set of ideas.

We should come back for a moment to reflect upon the motivation for this volume. What is it about Ayn Rand that has earned her such contempt among philosophers and other "establishment" intellectuals? First and foremost, there are the individualist ideas—and Rand herself understood very clearly the source of the hostility to them, as her caricatures of intellectuals in her novels show.

A close second to the individualism, one could wager, is her theory of aesthetics and its application in her novels and plays. Her theory of aesthetics (whose treatment in this collection would have made an important addition) is a robust but, one cannot help but think, naive and not-well-thought-out romanticism. As applied in her novels, this aesthetic amounts to long, strident, blustery tirades by major figures—as if loud, angry speeches were the primary literary mode of being "moving." Seen from another perspective, the novels are heavy-headed political-ethical propaganda, virtually lacking in all the niceties of careful character development, plot nuances, and elegant language that are the standards of good novels.

Rand's uncontrolled—if basically correct—assaults on beloved figures in philosophy, science, and mathematics further fuel her abiding unpopularity. Frontally attacking the intellectual heroes of others (for example, Immanuel Kant, German physician-scientist Werner Heisenberg, German mathematician Kurt Gödel), and at the same time showing an ignorance of the basic details of their work, is not an endearing quality.

Finally, there is Rand the person. She was a Russian immigrant, and Russian immigrants have always been suspect and, as the recent treatment of Alexander Solzhenitsyn and others has shown, this has subtly evolved into a McCarthyism of the left—where Russian immigrants critical of the American establishment are quickly branded as fascists or monarchists.

Rand also occasionally showed herself to be an unpleasant person: ungenerous, intolerant, with a well-known penchant for cronyism. But there is no reason to believe that major philosophers of the past have totally lacked these qualities. Indeed, the patron saint of modern logic and philosophical analysis, Gottlob Frege, was a vicious, anti-Semitic, embit-

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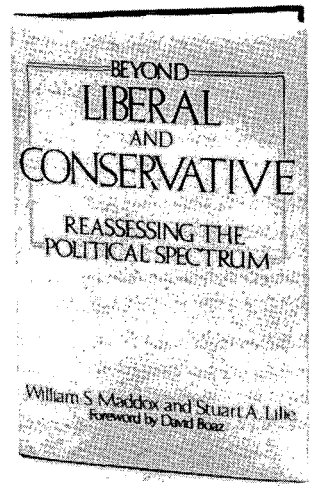

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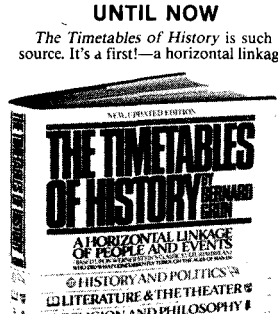

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tered man—yet personal qualities are not mentioned as detracting from his ideas. With Rand, however, such personality analysis often seems to pass as serious criticism of her ideas, sometimes even by those who take her ideas seriously enough to discuss them.

In conclusion, this collection is not a uniformly successful work. But by seriously treating the main ideas of Ayn Rand, it is to be hoped that it will lead to still more such serious, professional treatment—perhaps even in the classroom. Rand herself probably would have approved neither of the authors nor of the no-holds-barred criticism to which her ideas are here exposed. But objectively seen, this volume singlehandedly redresses a grievance against professional philosophy that has long been Rand's due.

Randy Dipert is a philosophy professor at Fredonia State University College, New York.

Closing in on Plant Closings

Fugitive Industry: The Economics and Politics of Deindustrialization
By Richard B. McKenzie
Cambridge, Mass.: Ballinger; San Francisco: Pacific Institute for Public Policy Research
281 pp. $29.95/$11.95

Reviewed by David R. Henderson

Are the Northeast and the Midwest, the so-called Frostbelt, dying? Is the rise of the South and the West, the so-called Sunbelt, due to the closing of manufacturing plants in the Frostbelt? If companies were forced by law to give long advance notice and to make large payments to employees whenever they closed a plant, would this necessarily benefit workers?

These questions and more are taken up in *Fugitive Industry*, written by economist Richard McKenzie of Clemson University. His answers may surprise a lot of readers.

Advocates of laws making it difficult and costly to close factories claim that plant closings, contractions, and relocations eliminated over 15 million jobs in the United States between 1969 and 1976. But McKenzie points out that these lost jobs were more than compensated for by 24 million jobs *created* over that same period. Moreover, while manufacturing employment in the North fell by 1.6 million during that time, total employment (excluding agriculture) increased by 1.9 million. McKenzie shows that between 1965 and 1980, total nonagricultural employment increased in all major regions of the country—even in northeast industrial cities such as Akron,

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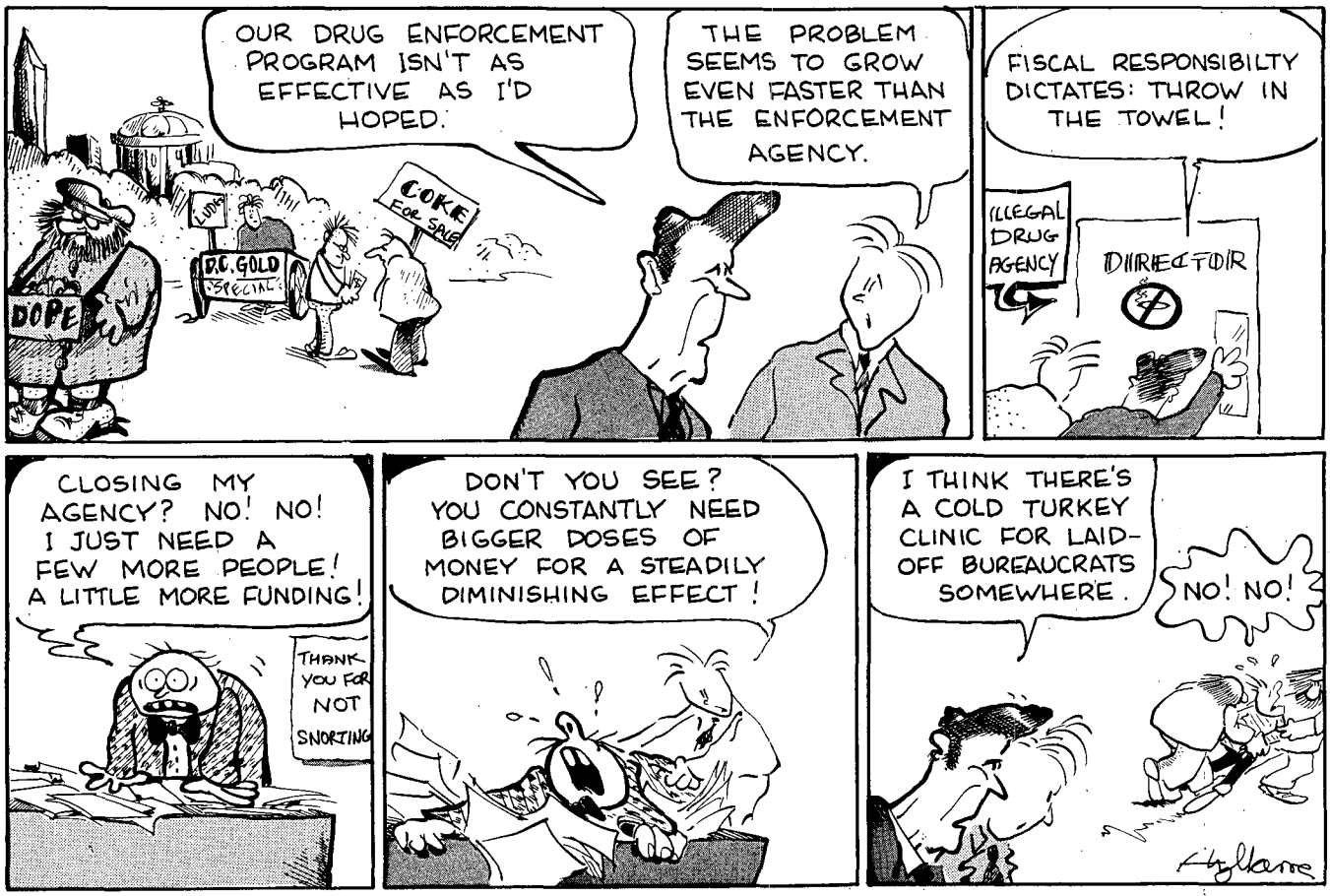
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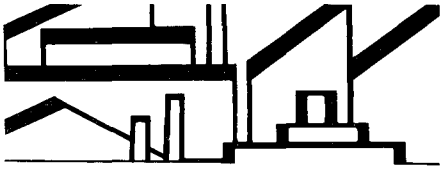
Detroit, Youngstown, and Cleveland, which are supposedly the epitome of industrial decline.

Nor was the net loss of manufacturing jobs in the Frostbelt caused by a higher rate of job loss than in the Sunbelt. Rather, it was due to a lower rate of job creation. Moreover, McKenzie points out, over 98 percent of job losses in the Frostbelt between 1969 and 1972



resulted from companies scaling back or shutting down operations. Less than 2 percent were caused by companies moving to greener pastures. So much for the widespread belief that the Sunbelt is prospering at the expense of the Snowbelt.

Unfortunately, McKenzie fails to point out that the Frostbelt's industrial problems are concentrated in autos and steel, where very high wages prevail. In 1970, hourly compensation for auto and steel workers was about 30 percent higher than the average for all manufacturing employees. But by 1981 the difference had grown to 50 percent for auto and 70 percent for steel workers.

Do plant-closing laws benefit workers? McKenzie says no. Such laws, to the extent they prevent closings, tie up capital that could have been used to create new jobs. Unfortunately, this effect is not readily apparent. Consequently, workers who remain unemployed because new jobs are not created don't realize why few new jobs exist. So they don't lobby against plant-closing laws. On the other hand, workers who already have jobs, and hope to keep a lock on them with plant-closing laws, lobby very effectively.

In criticizing plant-closing laws, McKenzie makes one argument that does not make sense. He claims that such laws could themselves cause some individual plants to close: if a plant is doing badly and there is no law, the company might hold out in the hope that demand will pick up; but if there is a law that imposes a cost on the company for closing its plant, the company will be more likely to close it. McKenzie's logic here is obscure, for a company would be more likely to keep the plant *open* if its managers faced a penalty for closing it. McKenzie *could* reasonably claim, though, that if companies anticipated enactment of a closing law they would be more likely to shut down a marginal plant to avoid future penalties.

Often, worry about plant closings comes down to a perception that it's unfair to lay off employees who have spent years of their lives working in one plant. But, counters McKenzie, the supposed unfairness depends on what the employer has promised. If he has assured his workers that their jobs are secure for a long time, then it is unfair to close the plant suddenly. But when an employer breaks such a commitment, his employees have a just grievance that can be handled by the courts.

When an employer has made no such promises, why, asks McKenzie, is it "unfair" to close the plant suddenly? In such cases, the employer generally has to pay higher wages to compensate his employees for the higher risk of losing their jobs. For this reason, it is plant-closing laws themselves that are unfair. They force an employer to overcompensate his employees by first paying them wage premiums that reflect the risk that their jobs might end and then not being able to close the plant as quickly as anticipated when the premium wages were agreed to.

Of course, as McKenzie points out, employees would be overcompensated only in the short run. In the long run, employers would insist on paying lower wages to make up for their reduced flexibility, so employees wouldn't necessarily benefit overall. In fact, they might lose. After all, they are always free to bargain for lower wages in exchange for less management flexibility to close plants. Employees who opt for higher wages must want that more than they want job stability. But plant-closing laws would prevent them from making that trade-off.

One caveat is in order. While the reader will probably find most of McKenzie's arguments persuasive and his evidence convincing, there are some real problems with his book. It is wordy and plodding and too seldom incisive. The book clearly needed a good editor. Also, McKenzie fails to present some evidence that strengthens his case. Some of the best evidence appears only in the brief foreword by economist Finis Welch.

Nevertheless, the issue McKenzie deals with is important. Restrictions on plant closings are already in force in Maine and Wisconsin and in Philadelphia. And the debate over such laws continues. McKenzie's *Fugitive Industry* provides a valuable source for learning more about the case against such restrictions.

David Henderson recently left the staff of the Council of Economic Advisers to return to teaching.

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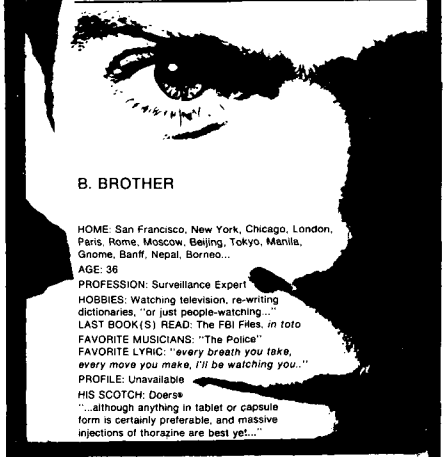

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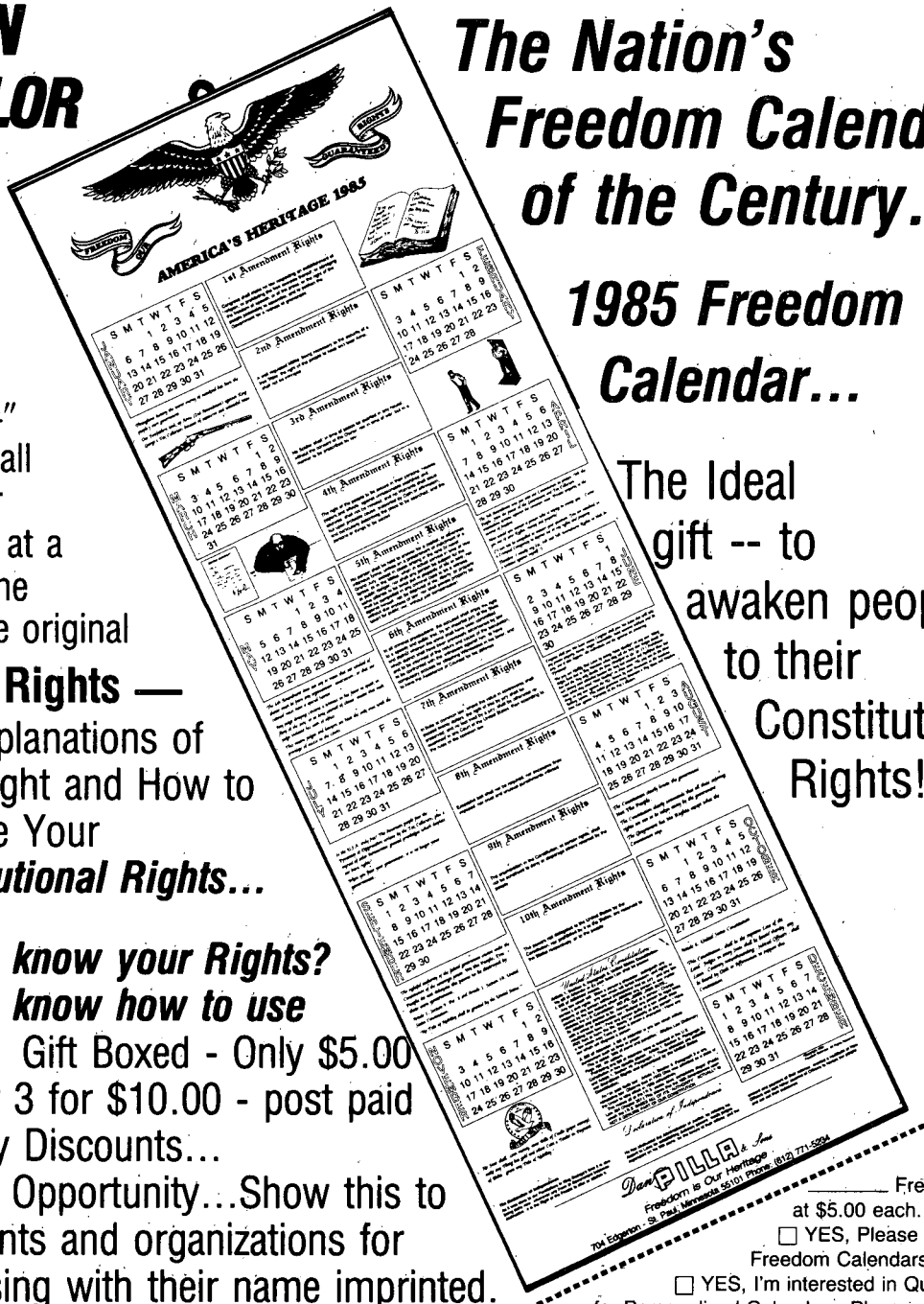

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RE84

Further & More

CONVERSION EXPERIENCE

A proposal to sell government housing to tenants may be seeing the light of day in Washington ("How to Change the Facade of Public Housing," Trends, Oct.).

The plan has already done well in Britain, where the Thatcher government has sold more than a half-million public housing units to tenants. Stuart Butler, director of domestic policy studies for the Heritage Foundation, has adapted the idea to the United States, and it is apparently beginning to gain momentum.

Rep. Jack Kemp (R.-N.Y.) first introduced an "urban homestead bill" in the House that would provide for sale of public housing to tenants, mainly to tenants' associations. Since then, a companion bill has been introduced in the Senate by Steve Symms (R-Idaho). The legislation would broaden a Department of Housing and Urban Development (HUD) pilot project, announced in September, to let tenants' associations, public-housing authorities, and municipal governments jointly purchase public housing units. HUD said it would pick as many as 10 cities for the pilot project by early January.

Tom Humbert of the House Republican Conference told REASON that the Kemp-Symms proposal will be reintroduced in the new congressional session by February. He also said that although both Kemp and Symms are conservative Republicans, some liberal Democrats have expressed interest in cosponsoring the measure. (Liberal Democrats have supported such proposals in the past, including Robert Kennedy in the period shortly before his assassination.)

Meanwhile, we note that a shift of government-owned housing to tenant control has actually been practiced on a small scale in New York City for some time now. The city government takes over buildings—most of them old and unmarketable—from landlords who haven't paid property taxes. And a group called the Urban Homesteading Assistance Board trains tenants of those buildings to take over and manage their own buildings as a cooperative.

As the one-time tenants "learn about improvement costs, rent rolls and the other facts of ownership," noted the *New York Times* recently, "an amazing transformation takes place: Many of the tenants begin to sound like landlords."

RETRENCHING IN SEATTLE

Since 1979, REASON has reported several times on Seattle's experiment with deregulation of taxi fares. Most recently, in the June-July issue, we noted a study showing how minor problems with deregulation had been solved ("Driving to Market," Trends).

But apparently that wasn't good enough for the city and county fathers. Last fall, the city of Seattle and King

County government, which had acted in tandem to deregulate taxis both within the city limits and in the suburbs, decided they'd had enough of free markets and they both reregulated rates. The way they went about it opened a new Pandora's box. Even though the Seattle metropolitan area is, practically speaking, a single market for taxicabs, the city and county came up with different regulatory schemes—the city set a rate *ceiling* of $2.60 for the first mile and $1.40 per additional mile that cab companies are free to undercut, but the county imposed a *flat rate* of $2.00 for the first mile and $1.20 for each mile thereafter. Thus, a taxi with the temerity to take a passenger from the city to a suburb, or vice versa, enters a legal no-man's land.

In October, Lorraine Brekke, the head of the county's Executive Administration Department, told REASON, "We are hopeful that the city and county can come up with a compromise plan." But she figured it would probably take two months to iron things out. Meanwhile, according to the *Seattle Post-Intelligencer*, six cab drivers got warning tickets from the county for *undercharging* their passengers by 20 cents a mile. The passengers of Seattle must be thanking their lucky stars for such regulatory "protection."

AND MORE

• *First Amendment follies.* In January 1983, REASON exposed the Securities and Exchange Commission registration system for financial newsletters and its violation of press freedom ("Subverting the First Amendment"). Evidently, the powers that be in Washington were not persuaded. In October 1984, President Reagan signed legislation that increases the maximum fine to $250,000 for individuals and $500,000 for publishers who put out an unlicensed financial magazine or newsletter. Newsletter Association official Glen Parker told REASON that to his knowledge, no one has ever been criminally convicted and paid a fine. In his view, the SEC uses the possibility as a veiled threat—they file civil charges, and harried newsletter publishers know that if they don't kowtow, the SEC has the option of the far more severe, criminal complaints.

• *Winning the slot game.* Auctioning off landing and take-off slots at airports, discussed in Trends in the June-July issue and in the Editorial in September, is gaining supporters. The *Wall Street Journal* recently reported that Office of Management and Budget (OMB) director David Stockman supports the idea, as do commuter airlines hungry for slots that they're denied by the current cumbersome system of allocation. The *Journal* itself likes the idea. "A congestion solution points in the direction of auctioning the best time slots to the highest bidder, with airlines then free to buy and trade these rights among themselves in a secondary market," a *Journal* editorial said. But in Westchester County, New York, the White Plains Airport isn't waiting for the Federal Aviation Administration to approve the controversial idea of bringing market efficiency to the management of a scarce resource. There, the County Board of Legislators has announced that it will be auctioning off all its slots to the highest bidders.

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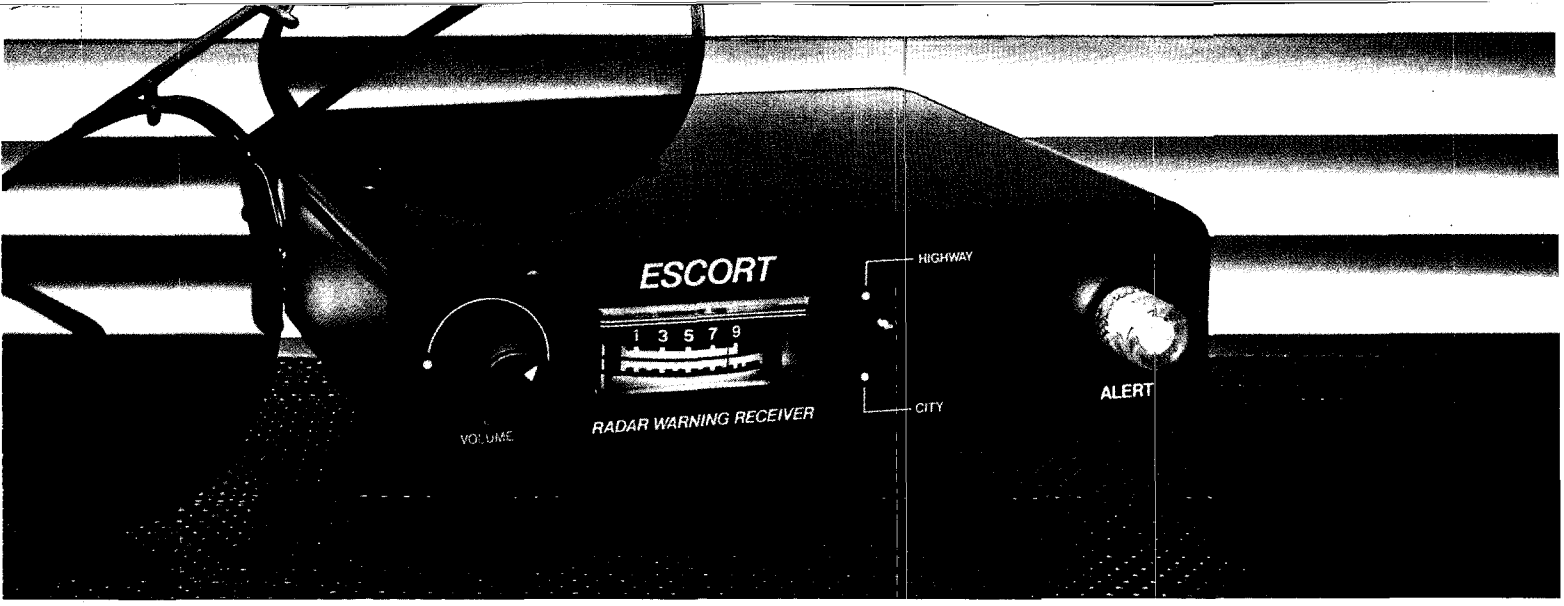

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Econ 101

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